

CHERKIZOVO UNITES

Annual report
2019



CHERKIZOVO TODAY

Cherkizovo Group is Russia's largest meat producer and ranks in the Top 3 in the following categories: chicken, turkey, pork and sausages. We are a consumer-oriented company committed to quality and product excellence.

ABOUT THE COMPANY

Cherkizovo Group has come a long way to build a highly successful and efficient business. We started with a single meat processing plant – to grow into the country's largest meat manufacturer controlling the entire production chain from growing and producing crops to delivering the end-product.

The Company's success rests firmly on our ability to cater to consumer preferences. We carefully monitor market trends as we seek to meet and anticipate our customers' needs. For several years we have been expanding our healthy diet offering by developing new product lines.



For more information visit our Corporate website:

www.cherkizovo.com

KEY ACHIEVEMENTS

No.1

Top-ranking Russian meat producer*

No.1

Leading poultry producer in 2019**

No.2

Among the largest pork producers in Russia in 2019***

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.

* According to the rating following the results of 2018 prepared by the Agroiinvestor magazine.

** According to the Russian Union of Poultry Producers.

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



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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) for the period from 1 January to 31 December of 2019.

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.

The report has been prepared with reference to GRI Sustainability Reporting Standards.



For further details on the report and GRI Standards compliance, see **page 233**.

No.2

In the ranking of turkey producers⁺

MOODY'S RATING B1 EXPERT RA RATING ruA

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

The Group is a member of the National Union of Poultry Farmers, National Union of Swine Breeders, National Meat Association, Association of Bona Fide Agricultural Producers, and Russian Union of Industrialists and Entrepreneurs.



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.

⁺ According to the ranking by Agrifood Strategies.

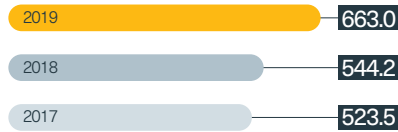
YEAR IN NUMBERS

SALES

POULTRY SALES, '000 tonnes



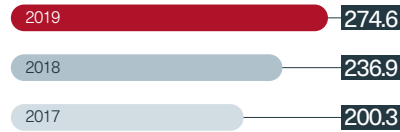
+21.8%



PORK SALES, '000 tonnes



+15.9%



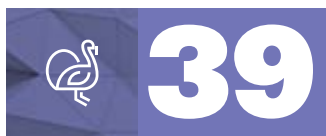
MEAT PROCESSING SALES, '000 tonnes



+7.0%



TURKEY SALES⁺, '000 tonnes



+0.3%



GRAIN SALES, '000 tonnes



(24.7%)



SAMSON – FOOD PRODUCTS^{**}, '000 tonnes



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

^{**} Data in this section denotes to the company Samson – Food Products, associate of the Group, where Cherkizovo Group owns 75% of the capital.

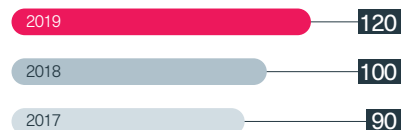
FINANCIAL HIGHLIGHTS

RUB million / %	2017	2018	2019	Year-on-year, %
Revenue	90,465	100,422	120,109	19.6%
Gross profit	23,559	29,182	27,863	(4.5%)
Operating expenses	(13,612)	(13,570)	(17,551)	29.3%
Adjusted EBITDA	14,643	20,415	20,617	1.0%
Adjusted EBITDA margin	16.2%	20.3%	17.2%	(3.2 p.p.)
Adjusted operating profit	8,943	13,509	12,397	(8.2%)
Profit before tax	5,956	11,793	6,697	(43.2%)
Adjusted net profit	5,066	9,958	8,958	(10.0%)
Net operating cash flow	13,016	14,178	16,056	13.3%
Net debt	48,669	58,559	61,206	4.5%

REVENUE,
RUB billion

120

+19.6%



ADJUSTED EBITDA, RUB billion

20.6

1.0%

ADJUSTED NET PROFIT,
RUB billion

9

(10.0%)

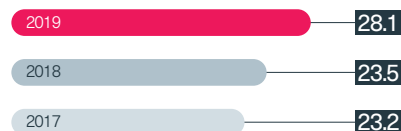


NON-FINANCIAL HIGHLIGHTS

HEADCOUNT,
'000 employees

28

19.6%



LTIFR

1.7

(14%)



CHERKIZOVO UNITES

A line of halal products launched under the Dajajti brand to tap into the export markets of Islamic countries. the products have been certified by the UAE's Authority for Standardization and Metrology (ESMA).





Cherkizovo exports its meat products to the Middle and Far East, Africa, and the CIS.

We have been actively expanding our footprint in the FSU and non-FSU markets and plan to increase exports across all our product categories.

As authorized exporters, our facilities are compliant with international trade requirements, and our products are certified under the FSSC and ISO 9001 standards.

5.7

RUB billion
in export revenue
+78% y-o-y

14

thousand tonnes
Chicken supplies to China launched in 2019

SEGMENT OVERVIEW

REVENUE BY SEGMENT,

RUB billion

POULTRY



PORK



MEAT PROCESSING



TURKEY**



GRAIN

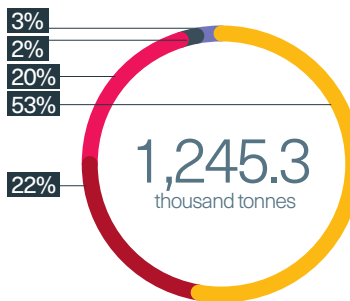


FEED



MEAT SALES BY SEGMENT,

%



	thousand tonnes
Poultry	663.0
Pork	274.6
Meat Processing	245.6
Samson – Food Products*	22.7
Turkey**	39.4

The bulk of the products are sold through retail chains to HoReCa customers and also exported. The Group's centralized logistics infrastructure guarantees delivery within the shortest time possible.

At Cherkizovo, we keep a close watch on consumer preferences by conducting regular marketing surveys, reviewing feedback, and testing our key and new products. This fuels market demand for Cherkizovo 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.



Please see the Business Model section on **page 54** for details

* Data in this section denotes to the company Samson – Food Products, associate of the Group, where Cherkizovo Group owns 75% of the capital.

** 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.

CHERKIZOVO
GROUP:

No.1

**Top-ranking Russian
meat producer**

No.1

**Leading poultry
producer in 2019**

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



POULTRY



PORK



MEAT PROCESSING



GRAIN



TURKEY



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.

Core product categories

Chicken products: whole chickens and cuts, chilled and frozen meat, ready-to-cook products, and by-products.



For further details, see page 64



What sets us apart

- HACCP system
- FSSC 22000 quality standard
- 24 hours from farm to fork
- Advanced cooling and temperature compliance system

Year's highlights

- Acquisition of Rovensky Broiler
- Relaunch and ramp-up of Belaya Ptitsa
- Start of Petelinka sales in Siberia
- Launch of poultry exports to China

REVENUE, RUB billion



663

thousand tonnes

Sales

+22% y-o-y

KEY FACILITIES

- Petelinskaya poultry farm, Moscow region
- Vasilyevskaya poultry farm, Penza region
- Lisko Broiler, Voronezh region
- Kurinoe Tsarstvo, Bryansk, Lipetsk and Moscow regions
- Altaisky Broiler, Altai Territory
- Belaya Ptitsa¹, Belgorod and Kursk regions
- Rovensky Broiler, Belgorod region

¹ Is currently operated by the Group pursuant to a lease agreement.

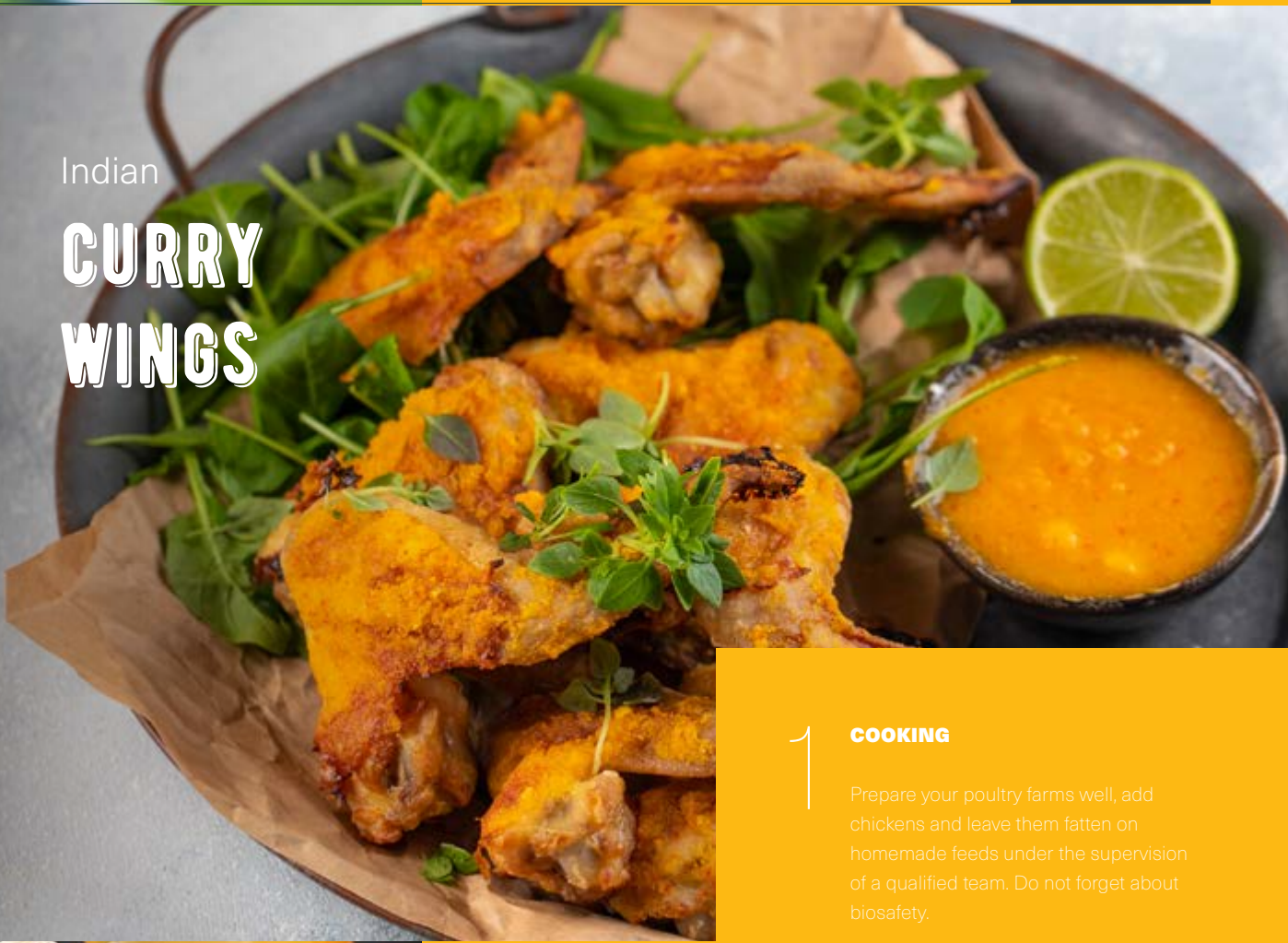
CHERKIZOVO UNITES

Chicken BBQ – Indian curry wings

Chicken dishes are found in all national cuisines. From the fillet you get low-fat dietary dishes that are useful for children and athletes, lovers of homemade fast food grill wings in breadcrumbs, and from the thigh you can cook a delicious broth – the one that treats colds so well.

Indian

CURRY WINGS



1 COOKING

Prepare your poultry farms well, add chickens and leave them fatten on homemade feeds under the supervision of a qualified team. Do not forget about biosafety.

2 SECRET SAUCE

To bring out all nuances of taste, you will need to make your production facilities meet the requirements of international fast food chains. Humane animal treatment practices are the best choice for this purpose.

3 SERVING

The end products are served in stores as chopped or minced chicken, patties and ready-to-roast meals. The most popular are those under the Petelinka brand.

YOU WILL NEED

Poultry farms 

Hens 

Homemade feeds 

Qualified team 

PORK

The Pork segment embraces breeding of market hogs and their sale to both the Group companies and third parties. In 2019, 86% of market hogs was sold to the Meat Processing segment to make end products, with the rest shipped to third parties.

Core product category:

Market hogs.



For further details, see page 68



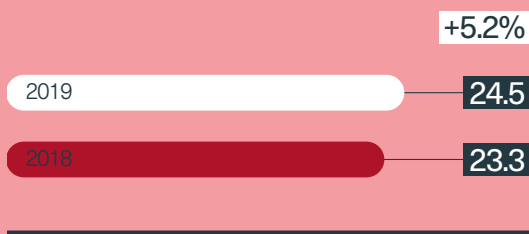
What sets us apart

- HACCP system
- Highest biosecurity status of pig farms
- Needle free injections

Year's highlight

- a new pig farm was launched in the Penza Region

REVENUE, RUB billion



284.2

thousand tonnes

Production

+15% y-o-y

CORE GEOGRAPHIES

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

CHERKIZOVO UNITES

Traditional Russian Dumplings - Chinese Jiaozi Dumplings

Different countries use their unique recipes for making dumplings. But an integral ingredient of this dish around the world is high-quality minced pork.

Chinese Dumplings

JIAOZI

1

DOUGH

Take a bowl and mix in full pork production complexes, pig sites with combined nursery and finisher sites, and sow farms, give them a good whisk. Add the team of professionals to the resulting batter and let it rise.

2

FILLING

Pick only the best-bred sows that have proven to be highly effective, surround them with care from expert staff. Don't forget to sprinkle in high biosafety and animal welfare standards.

3

COOKING

Roll the dough out evenly between Penza, Lipetsk, Voronezh, Tambov and Orel regions, add the filling. Well done!

4

SERVING

Send in your creation to Cherkizovo Group's meat processing plants and let them do their magic.

YOU WILL NEED

Full pork production complexes



Pig complexes with combined nursery and finisher sites



Sow farms



A team of professionals



Strict biosafety standards



MEAT PROCESSING

The Meat Processing segment manufactures sausages and other products from pork, chicken meat and turkey. Our products are sold under several brands across different price categories.

Core product categories:

- Higher value added products: a variety of sausages, smoked meat, deli meats, and cold cuts;
- Lower value added products: raw meat, ready-to-cook foods and minced meat,
 - Cooked meats products: hot dogs.



For further details, see page 72

Черкизово

Самсон

ИМПЕРИЯ ВКУСА
САХОВИТЕЛЬНИЦА КЕЧЕНЕСКАЯ

МЯСНАЯ
ГУБЕРНИЯ



What sets us apart

- Large mix of high-quality sausages, deli meats and ready-to-cook products
- Certified to GOST R ISO 9001 – 2008 (ISO 9001)
- Lean manufacturing system
- FSSC 22000 quality standard

Year's highlights

- Cherkizovo brand revamp
- Launch of a bacon slicing line at Cherkizovsky Meat Processing Plant

REVENUE, RUB billion



245.6

thousand tonnes

Sales

+7% y-o-y

KEY FACILITIES

- Slaughter facilities: Dankov and Penza
- Meat processing plants: Cherkizovsky Meat Processing Plant in Moscow and its offshoots in Penza, Ulyanovsk, Kaliningrad and Kashira (Moscow region)

CHERKIZOVO UNITES

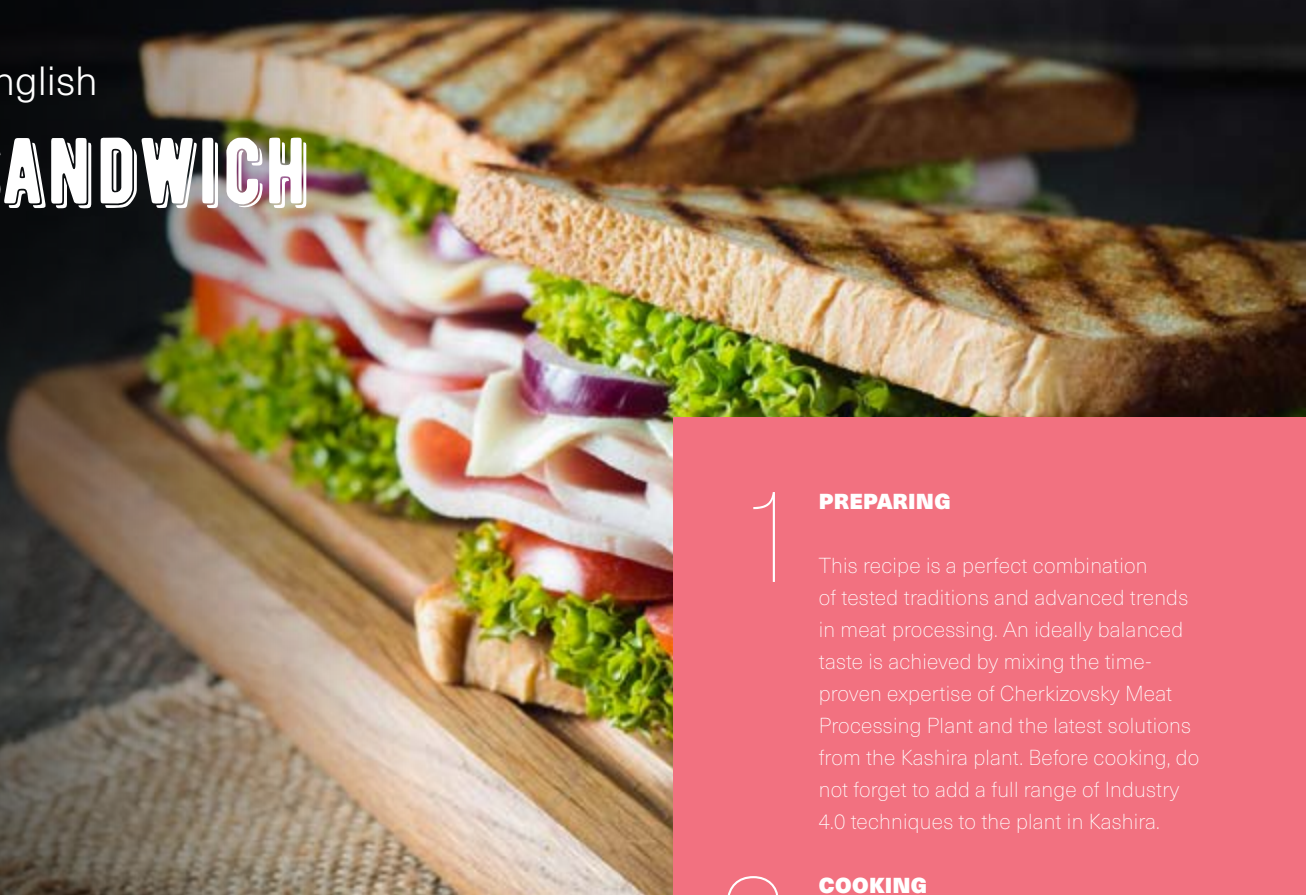


Sandwiches for breakfast - English sandwich

The appearance of a sandwich in its modern form can be roughly attributed to Europe of the XVII century. The very idea of wrapping in bread or putting other ingredients on it appeared long before that in various cultures.

English


SANDWICH




YOU WILL NEED

Chilled pork 

Chilled chicken and turkey 

Several meat processing plants 

Advanced meat processing technology 

1 PREPARING

This recipe is a perfect combination of tested traditions and advanced trends in meat processing. An ideally balanced taste is achieved by mixing the time-proven expertise of Cherkizovsky Meat Processing Plant and the latest solutions from the Kashira plant. Before cooking, do not forget to add a full range of Industry 4.0 techniques to the plant in Kashira.

2 COOKING

After you have prepared the meat processing plants, begin deliveries of in-house produced pork, chicken and turkey. Do not forget using natural spices only. Mix the above ingredients and make sausages or cold cuts. Send them to stores when ready.

3 SERVING

Cherkizovo-branded sausages and cold cuts serve to bring the entire family to the table. Especially popular are Salchichón, Salami Extra and Doktorskaya Po-Cherkizovsky.

GRAIN

The Grain segment grows crops that the Group uses to produce feed at in-house mills or sells them to third parties.

Core product categories:

- Crops (wheat, soy, sunflower, corn, and barley)
- Feeds.



For further details, see page 76

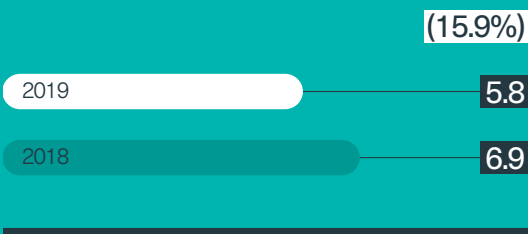
What sets us apart

- Most fertile Central Black Earth regions
- Know-how backed by global expertise
- Amelioration program

Year's highlights

- Land bank increased by 13 thousand hectares to 300 thousand hectares
- Soil improvement and balanced plant nutrition program continued

REVENUE, RUB billion



593.0

thousand tonnes

Harvest

+24% y-o-y

CORE GEOGRAPHIES

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

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.

Core product categories:

- Turkey meat (fillet, diced meat, steaks, thighs, and wings)
- Ready-to-cook products
- By-products.



For further details, see **page 80**



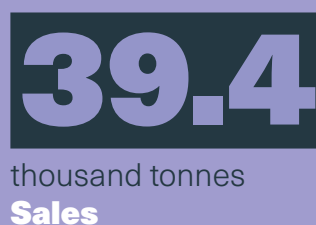
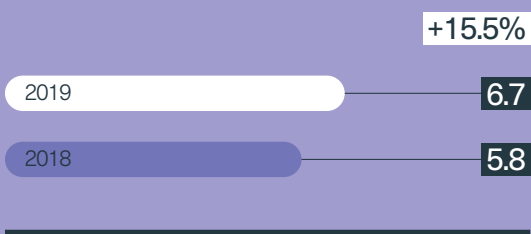
What sets us apart

- One of Russia’s most pristine areas
- Certified to ISO 22000:2005
- FSSC 22000 quality standard

Year’s highlight

- Cherkizovo Group started implementing the second stage of Tambov Turkey

REVENUE, RUB billion



CORE FACILITY

Tambov Turkey,
Tambov region

CHERKIZOVO UNITES

New Year's Turkey - Thanksgiving Turkey in America

Characteristic of Russian cuisine is the preparation of poultry and game whole carcasses. In American cuisine, baked turkey is also a national Thanksgiving dish.

American

THANKSGIVING TURKEY



1

COOKING

To cook it the right way, you may need some business partners from Spain. Before cooking, take a turkey production plant and put in Tambov region, Russia's greenest area. Have it certified to ISO 22000:2005 and FSSC 22000. Mix a team of professionals with some Spanish expertise and add them to the plant. Do not forget to put in place a HACCP plan to monitor turkey health. Use homemade 100% grain feeds for the turkey to gain weight fast, then send it for processing in around 118 days.

2

SERVING

Serve the turkey in stores as Pava-Pava branded fillet, minced meat or ready-to-roast meals in oven bags. the pickiest of eaters will delight in schnitzels, wieners or patties.

YOU WILL NEED

- 100% grain feeds
✂
- Hybrid Grade Maker turkey
🐓
- Tambov Turkey joint venture
🏠
- A pack of experts
👤
- ISO 22000:2005 and FSSC 22000 standards
📄
- HACCP program
📋

45 YEARS AND RUNNING

Today, Cherkizovo Group is not only the country's largest manufacturer of meat products, with facilities spanning from Kaliningrad to Altai, but also the industry's technological leader.

Our plans are just as far-reaching as our achievements, seeking to introduce more advanced meat processing technologies, ramp up production, and expand sales geography in Russia and beyond.



TODAY

8

meat processing plants

21

combined nursery and finisher sites

9

poultry farms

246

thousand tonnes
annual meat products sales

275

thousand tonnes
annual pork sales

663

thousand tonnes
annual poultry sales

No.1

in Russia
meat production

No.2

in Russia
pork production

No.1

in Russia
the Group operates

In 2019, Cherkizovo turned 45.

It was back in 1974 when Cherkizovsky Meat Processing Plant, now the beating heart of the Group and a flagship meat processor in Russia, was opened.



2012

Cherkizovo taps into **the crop farming market**

2016

Cherkizovo Group launches **export operations**

2018

Tambov Turkey reaches full production capacity

9 

feed mills

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

39 

thousand tonnes **turkey sales**

300

thousand hectares **of land**

No.2

in Russia turkey sales

524

thousand tonnes **the Company owns**

DINE OUT WITH CHERKIZOVO

600

tonnes
of pepperoni
for Dodo Pizza

180

tonnes
of pepperoni for
Domino's Pizza

Our facilities comply with the rigorous standards of global chains.

62

tonnes
of strips
for Burger King

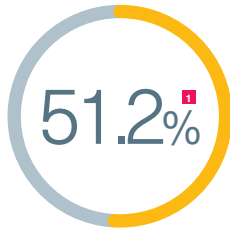
5,6

billion
in food service revenue
+81% y-o-y

Cherkizovo Group provides restaurants with an impressive selection of chilled and frozen chicken, turkey and pork products, all of which boast great taste, structural properties and shelf lives thanks to the Group's reliance on its own feedstock and innovative production technologies.

We are looking for partnerships driven by mutual benefits and work with restaurants to create specialty products made to customers' original recipes and specifications. Our production capacities enable us to cater to both major chains sourcing tonnes of finished products and smaller players looking for small batches.

KEY BRANDS



Brand awareness

No.1

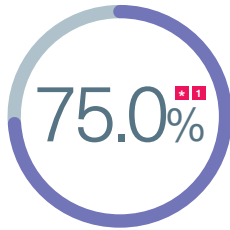
on the **poultry product** market



Quality Guarantee 2019



Product of the Year



Brand awareness

No.2

on the **turkey** market



Quality Guarantee 2019



Product of the Year

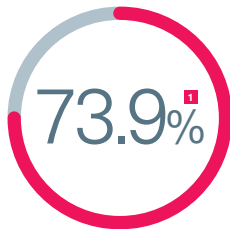


Consumer Rights and Service Quality Award



German Design Award

¹ For Pava-Pava, brand awareness is based on Moscow and St. Petersburg data.



Brand awareness

One of industry leaders



Quality Guarantee 2019



Taste Experience



Consumer Rights and Service Quality Award

¹ According to Ipsos study.

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.



For further details, see **page 54**



ROBUST GROWTH AND SOLID FINANCIAL POSITION

In 2019, the Group's revenue rose by 19.6% to RUB 120.1 billion, and EBITDA by 1.0% to RUB 20.6 billion, while adjusted net profit decreased by 10.0% to RUB 9.0 billion. Lower pork prices in 2H 2019 put pressure on the Group's performance in the Pork and Meat Processing segments, but new acquisitions in the Poultry segment helped maintain a stable financial position.



For further details, see **page 90**



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.



For further details, see **page 61**



COMBINATION OF ORGANIC GROWTH AND M&A

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 2019, the Company launched 5 new pig farms in the Penza region. Work started to implement the second stage of Tambov Turkey.



For further details, see **page 50**



STRONG BRANDS

Cherkizovo Group continues to strengthen its brand portfolio, which includes highly recognizable and popular brands of Cherkizovo, Petelinka and Pava-Pava. The Company continues improving designs and recipes of its products to keep consumers engaged.



For further details, see **page 32**

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 impressive track record working in major Russian and international companies and have been repeatedly ranked among the Top 1,000 Russian Managers.



For further details, see **page 114**



TECHNOLOGY AND INNOVATION

All of our production sites were designed to meet the latest efficiency and veterinary safety requirements. The plant in Kashira 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.



For further details, see **page 75**



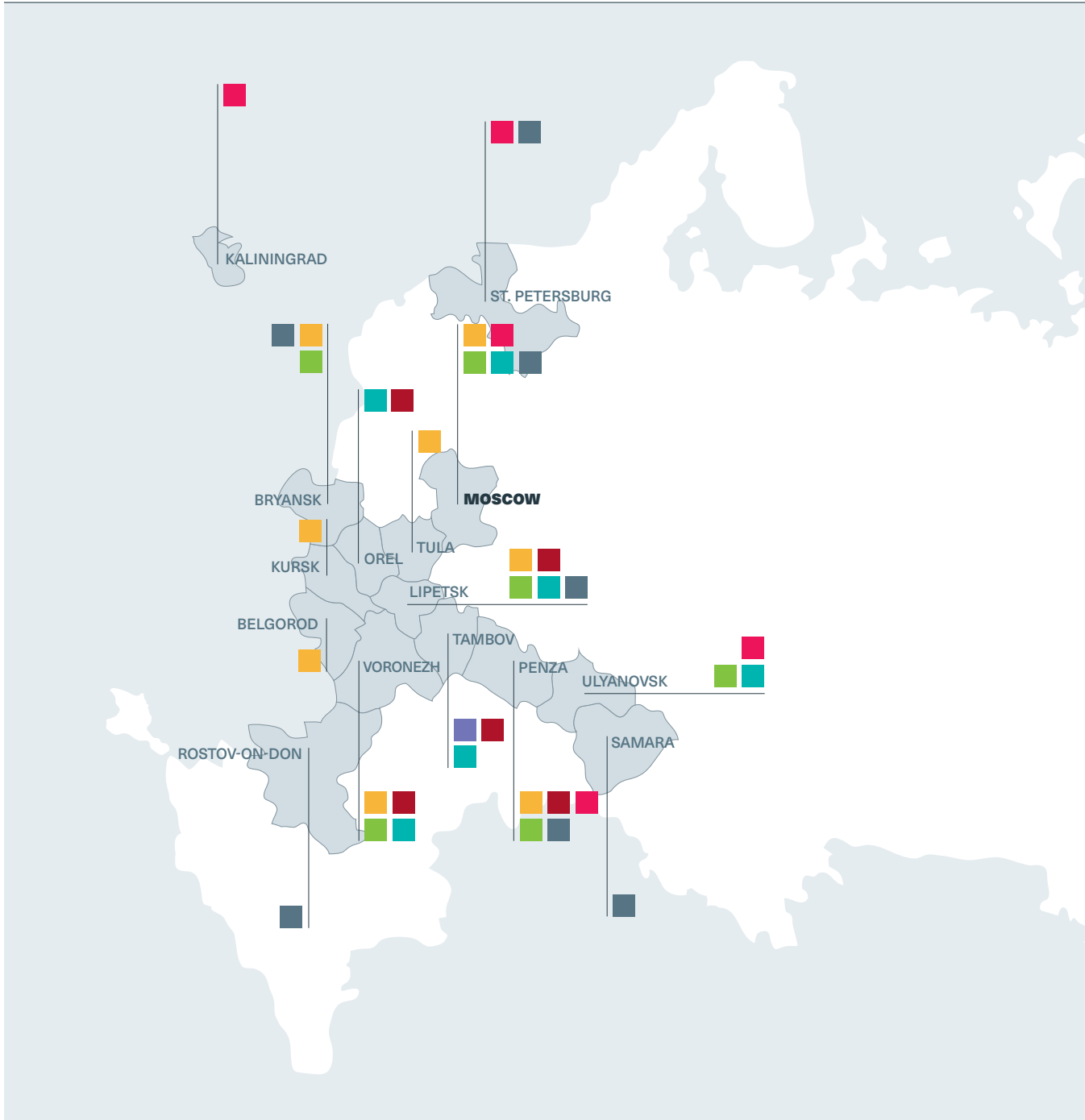
DISTRIBUTION AND LOGISTICS

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.



For further details, see **page 58**

LOCATION OF OPERATIONS



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 Company has also expanded into the Siberian Federal District. The geography of our production sites enables us to cater to **over 80%# of Russia's population**.

13 

pork
production complexes

21 

combined nursery
and finisher sites

2 

sow farms

9 

poultry farms*

9 

feed mills

12 

grain elevators

8 

meat processing and
slaughter facilities**

1 

turkey JV

300 

thousand hectares
total land bank

* Including Belaya Ptitsa poultry processing facility operated by the Group under the lease agreement.

** Including the meat processing plant operated by associated company Samson – Food Products.

19 

own and **11** leased
warehouses

BARNAUL

KEY EVENTS

NEW CAPACITY

During the year, Cherkizovo Group launched 5 new pig farms in the Penza region.

In October, the Company purchased Rovensky Broiler.

The land bank grew by 13,000 hectares to

300

thousand hectares.



NEW ASSOCIATIONS

In February, Cherkizovo initiates the foundation of the National Union of Poultry Farmers.

In July, Cherkizovo took charge of the Ministry of Industry and Trade's working subgroup on import substitution in food machinery.

In August, Cherkizovo Group joined the Russian Union of Industrialists and Entrepreneurs.

In December, the Cherkizovsky Meat Processing Plant joined the National Union of Meat Processors.



EXPORTS

In June,

Cherkizovo signed a

8

USD million contract for poultry deliveries to China.



FOOD SERVICE

Sales in the HoReCa segment doubled year-on-year.



EVENTS AFTER THE REPORTING DATE

Emin Mammadov was appointed Deputy CEO and his director status changed from independent to executive.

The Board of Directors recommends that the Annual General Meeting of Shareholders vote for allocating and paying RUB 60.92 per share in dividends for 2019.



MESSAGE FROM CHAIRMAN



120.1

RUB billion

Revenue

+20% y-o-y

9

RUB billion

Adjusted Net profit
in 2019

In 2019, Cherkizovo Group demonstrated excellent operational and financial results.

Despite challenging market environment, we managed to increase our revenue by almost 20% to RUB 120 billion.

GDP growth over the past year decreased to 1.3%, while real disposable income was up 0.8%. Household final consumption expenditure rose by 2.5%, in comparison with last year's figure of 2.2%. the VAT increase, taking it to 20%, had a considerable impact on the consumer market. In addition, production costs for meat products grew on higher prices for key feed components and logistics. These rises were passed on to the consumers, with retail prices for pork and broilers increasing by 4% and 10% respectively. the Group mitigated the lack of consumption growth by tapping into new markets.



We are constantly

investing in our production technology, as well as ensuring we consolidate the position of our key brands

IMPLEMENTING STRATEGY

At the present time, the Group is one of country's major meat producers and the leading producer of poultry. Our future growth will largely be determined by the ability to deliver quality and taste, rather than by higher production volumes. Cherkizovo's strategy is focused around the Group's sustainable development, its financial growth and securing its position as the meat market leader.

The Group considers the development of its product ranges and increasing its offering of high value-added products to be its number one priority. We are constantly investing in our production technology, as well as ensuring we consolidate the position of our key brands.

In 2019, our large scale investment in construction reached its conclusion. This led to a 20% drop in capital expenditure, down to RUB 8 billion in comparison to the previous year. Our key projects focus on Moscow, the Altai Territory, and the Moscow, Lipetsk, Penza, and Tambov regions. a considerable share of the investment was directed towards launching the production of new high value-added products and increasing the quality and convenience of our existing products.

The Group's marketing strategy is aimed at building brands, which will become clear leaders in their particular market segment.

the Group's most recognized brands, such as Cherkizovo, Petelinka and Pava-Pava, have already gained widespread popularity amongst consumers and occupy a leading position in their respective markets.

To keep up with the current trends in the meat product market, we now devote special attention to our ready-to-cook and ready-to-eat product ranges. We are trying to do everything in our power to ensure that our products meet the healthy lifestyle needs. Our specialists make sure that our products contain no artificial additives or flavour enhancers, thus protecting our well known and loved original taste. the Group offers a range of low calorie chicken and turkey, which help contribute to a healthy diet.

The fastfood market is also an increasingly important avenue for the Company. We are eagerly trying to increase our share of this steadily growing market. We already work with a large number of restaurants, including the market leaders. We are open to cooperation and are adapting our production to the recipes and requirements of our partners. According to our estimates, the food service will soon account for 20% of the Group's sales.

MESSAGE FROM CHAIRMAN OF THE BOARD OF DIRECTORS

SUSTAINABLE DEVELOPMENT AND ENGAGING STAKEHOLDERS

Cherkizovo Group places a special emphasis on sustainable development. Cherkizovo's priorities are, as always, the health and well-being of its employees, environmental protection and the development of the regions where we operate.

Last year, we focused on educating our employees on production safety standards. As a result, we have witnessed a drop in both the quantity and severity of workplace accidents. We aim to continue this work throughout the coming year.

Cherkizovo contributes to the development of the regions where we operate. We create well paid job opportunities, attract new investment, and take an active part in community activities. We are building new assets across all segments, taking into account, of course, our ecological responsibilities. We are constantly searching for ways to reduce the impact we have on the environment.

First and foremost, Cherkizovo's success depends on our customer satisfaction. Therefore, it is vitally important that we cooperate with stakeholders, including suppliers, distributors, shareholders, employees and, of course, consumers.

We pride ourselves on fulfilling our consumer's wishes. We carefully analyse all our customer reviews, both those on social media sites and those left through our official channel. These reviews, as well as our monitoring of general consumer trends, help us to finalize our products. Our ready-to-cook chicken, turkey and sausage ranges enjoy the most popularity amongst consumers.

The Group's key partners are federal retail chains and restaurants. Our production has been accredited by major international fast food chains, confirming the excellent quality of our products. Cherkizovo is one of the few Russian producers to have implemented international standards regarding the humane treatment of animals.

The Group is developing partnerships with suppliers. We are devoting special attention to our partnerships with local producers, providing them with advice on how to reach our high standards. All of the Group's suppliers adhere to the principles of openness and fair business practices.

In the future, Cherkizovo will continue to comply with the principles of sustainable development and increase stakeholder engagement.

CORPORATE GOVERNANCE DEVELOPMENT

Cherkizovo's corporate governance framework has been constructed in accordance with the best global practices, taking into account the integrated structure of the Company. 2019 saw us continue refining our approach to governance and best practices. The Company put a particular emphasis on strengthening the Management Board's competencies with the addition of new members that include both the Company's talent pool members and internationally experienced major industry experts.

DIVIDENDS

We seek to attract new investment and find new opportunities to work alongside stock market players. Our dividend policy is based on the principle of rational distribution of profits and takes into account both the interests of shareholders, and the Group's need for investment.

2019 dividend per ordinary share amounted to RUB 109.71. This is made up of a RUB 48.79 semi-annual interim dividend and a RUB 60.92 full-year dividend, as recommended by the Board of Directors. The full-year dividends will be approved at the Annual General Meeting of Shareholders in 2020.

109.71

RUB

dividend per ordinary share

I would like to express my gratitude to the members of the Board of Directors, the management and finally, the employees of the Company. Year after year, their contributions allow us to meet our strategic objectives. Only through our mutual cooperation can we continue to develop the Company and secure its position as the food market leader.



Evgeny Mikhailov
Chairman
of the Board of Directors



MESSAGE FROM CEO

Annual sales were mainly driven by higher exports and a broader presence in the HoReCa segment. Regarding exports, a pivotal moment was the opening of the Chinese market for Russian poultry products, enabling us to increase chicken meat sales. Strengthening our partnerships with major fast food restaurant chains, such as McDonald's, Burger King and KFC, we were able to more than double revenues in the HoReCa channel, which is set to remain a top priority.

The Group, as Russia's largest vertically integrated meat producer, is committed to offering consumers a wide range of products in different price brackets. With customer needs persistently evolving, one of our key priorities remains predicting changes in consumer sentiment in a correct and timely manner, amid tight competition in all markets where we are present.

Currently, technology is key to any business that seeks to remain ahead of competition. In 2019, Cherkizovo Group invested about RUB 1 billion in IT as we continued to improve electronic document management, Big Data, machine vision technology and online individual productivity tracking. With these IT solutions in place, Cherkizovo Group is one of the most innovative companies not only in its sector, but also in the Russian economy as a whole.

During the year, we further streamlined our occupational health and safety processes, resulting in a 14% decrease LTIFR and zero fatal accidents.

Cherkizovo Group invested over RUB 160 million in environmental performance enhancement, cutting the number of administrative violations by 13% year-on-year.

As a socially responsible company, Cherkizovo continued to provide charitable aid across its footprint in 2019. For example, we bought school kits and organized New Year celebrations for children from low-income families. Having embarked on a mission to support regional sports, we became a sponsor of a youth football club in Kashira, Moscow Region, and a men's volleyball club from Voronezh. The Group also co-sponsored a charity race held by SAP in Moscow to help children in orphanages.

In 2019, we established a partnership with WWF Russia and supported the Earth Hour, its international environmental campaign.

Importantly, Cherkizovo joined the Russian Union of Industrialists and Entrepreneurs last year. As a union member, the Company works closely with government agencies, business partners, NGO experts and a broader industry community on a wide range of matters, including environmental and agricultural regulation. Also, we became involved in a government-sponsored regulatory guillotine project for animal and crop farming.

OUR PERFORMANCE

In 2019, Cherkizovo Group's revenue rose by 20% to RUB 120.1 billion. In terms of average sales prices, only the Poultry segment saw gains, while the other segments came under pressure amid a weaker pork pricing environment. Adjusted EBITDA totaled RUB 20.6 billion, flat year-on-year.

The Company will pay RUB 60.92 per share in dividends for 2019, cutting payouts in line with a lower full-year net income.

POULTRY SEGMENT

In 2019, the Poultry division increased sales by 22% to 663 thousand tonnes, while the average sales price rose 9% to RUB 106 per kg mostly driven by a successful integration of assets acquired in late 2018. Petelinka, Cherkizovo's flagship poultry brand, saw a 13% increase in sales. Poultry exports and HoReCa sales grew 131% and 95%, respectively. As a result, the segment's revenue soared by 33% to RUB 70.3 billion.

Cherkizovo Group continued to lead in chicken meat production for the second straight year. In 2019, we produced 766 thousand tonnes of live weight, up by 145 thousand tonnes, lengthening the lead over our closest competitor almost twenty-fold year-on-year to 121 thousand tonnes.

For Petelinka, 2019 marked the launch of production at the Altaysky Broiler facility, which the Group acquired in late 2018.

In 2019, Cherkizovo Group continued to boost sales with their total volume increasing by 20% to 1.2 million tonnes. Specifically, the Poultry segment grew by 22%, the Pork segment by 16%, and the Meat Processing segment by 7%. The Group continued to strengthen its position in the Russian meat market, significantly lengthening its lead over its closest competitor, while also maintaining first place in chicken meat production for the second straight year. Furthermore, we became the second largest turkey producer in Russia.

This meant the country's most popular chicken brand could be rolled out in the Siberian Federal District. The launch of Petelinka at Altaisky Broiler followed a complete upgrade of the facility, bringing it up to Cherkizovo standards.

In 2019, we boosted poultry sales in the Black Earth region and the south of Russia as we fully ramped up Kurinoe Tsarstvo Kursk, an asset formerly owned by Belaya Ptitsa, launching an incubator, populating growth sites and starting up a poultry-processing plant. Total investment in the upgrade was RUB 500 million.

A pivotal moment of the year was the opening of the Chinese market for Russian poultry. In 2019, Cherkizovo Group signed several major chicken meat supply contracts with big Chinese retailers and restaurant chain operators as end consumers. During the year, the Company shipped 14 thousand tonnes of products to China. Given a favorable market environment, we predict a 10-fold upside potential in poultry exports. In value terms, we initially estimated Chinese export potential at USD 100 million, but we might well exceed this target already next year.

PORK SEGMENT

In 2019, Cherkizovo Group's pork sales rose by 16% to 274.6 thousand tonnes driven by the launch of new nursery and finisher sites. However, the average sale price came in at RUB 89.1 per kg, down 9% year-on-year, under pressure from domestic oversupply. Revenue increased by 5% to RUB 24.5 billion.

Towards the end of 2019 our pork production facilities were working close to their maximum total capacity of 300,000 tonnes in live weight. In 2019, we completed the construction of a pig farming cluster in the Penza Region.

This year and over the coming years, we are going to ramp up pork capacities, launching state-of-the-art pig farms in different parts of the Black Earth region, in line with our plans to boost exports of Russian pork products. Russian swine breeders are looking forward to tapping into the Chinese market. We also see great export potential in other Southeast Asian markets.



MESSAGE FROM CEO

MEAT PROCESSING SEGMENT

In Meat Processing, sales rose 7%, drawing support from a higher output of pork carcasses. Meanwhile, sausage sales were unchanged from 2018. Although sausage prices advanced, the average sales price for the segment decreased by 4% to RUB 163 per kg due to weaker pork carcass sales. As a result, the segment's revenue came in at RUB 40.1 billion, down 3% year-on-year.

The Cherkizovo brand revamp was one of the key developments in 2019. We upgraded the design of our sausages, improved the recipe and the product range. We expect consumers to view these changes positively, leading to an increase in sausage sales, with the impact to be seen by the end of Q1 2020.

In 2019, our state-of-the-art plant in Kashira reached design capacity. It is the most advanced smoked sausage production facility in Russia and Europe, running a completely automated system from raw material input to finished product shipment. Going forward, we plan to establish a meat processing cluster in Kashira. Preparations are under way to build a second plant 'Kashira 2' which will produce cooked sausages. When the cluster is in place, Cherkizovo Group will move most of its sausage facilities to Kashira. The implementation depends on our sales growth trajectory and a broader market environment.

CROP PRODUCTION SEGMENT

In 2019, harvest volumes soared by 24% to 593 thousand tonnes, while sales decreased by 25% to 524 thousand tonnes. Harvest gains were attributed to higher wheat and corn growing efficiency. Currently, Cherkizovo Group provides about one-third of its own wheat and corn needs.

Our land bank grew further and reached 300 thousand hectares by the end of the year. At the same time, we remain focused on soil quality and continue to use organic fertilizers. This helps us shift the crop rotation towards corn and soy, improving self-sufficiency in grain.

The highlight of the year was the Company's decision to build its own soybean processing plant in the Lipetsk Region. The facility is expected to cost RUB 7.2 billion (including VAT) and become operational in 2022, its capacity should reach about 2.5 tonnes per day. With its own oilseed processing plant in place, the Company will be able to procure cheaper poultry feed.

TURKEY

In 2019, Tambov Turkey, a joint venture between Cherkizovo Group and Spain's Grupo Fuertes, became the second largest turkey producer in Russia, with the output up by 9% to 41 thousand tonnes in live weight, while sales remained little changed year-on-year at 34.9 thousand tonnes. As a result, revenue came in at RUB 6.7 billion, up 16%.

Tambov Turkey's Pava-Pava products continued to win over consumers in 2019, delivering significant gains in popularity in Moscow and St Petersburg.

Given further sales upside potential in the Russian turkey market, the Company and its Spanish partner are investing in production growth. In 2019, Cherkizovo Group and the Tambov region signed an investment agreement aimed at boosting Tambov Turkey's capacity by 50% to 82 thousand tonnes per year. We expect to launch the second stage of Tambov Turkey in 2021.

1

RUB billion

in IT as we continued to improve electronic document management

160

RUB million

in environmental performance enhancement

14%

decrease in LTIFR and zero fatal accidents.

QUALITY ASSURANCE

At every stage of the production cycle, we are strongly committed to quality and biosafety. Cherkizovo Group maintains rigorous biosecurity standards and seeks to improve its quality assurance system in line with global best practices. In 2019, we established a Quality Directorate that brought together quality management functions across all divisions. The new directorate will be the core of a centralized quality management system, responsible for developing and implementing improvement programs.

Our production facilities meet the stringent standards and requirements of major global fast food chains. Two facilities have been certified for compliance with Animal Welfare standards that regulate humane husbandry practices. Only five factories across Russia have been awarded certification of this level.

We apply cutting-edge technology in quality assurance processes. In 2019, Cherkizovo Group launched a far-reaching digital platform designed to assess product quality in stores. Going forward, we will continue to roll out the project based on machine vision technology.

OUTLOOK

We believe that Cherkizovo Group's sales will be primarily driven by exports in 2020. We may have a huge window of opportunity for overseas shipments if Russian pork is cleared for exports to China. We are also interested in tapping into new markets in the Southeast Asia, the Middle East and Africa. In early 2020, we launched poultry shipments to the United Arab Emirates for HoReCa customers. Looking ahead, we expect to establish regular supplies of our halal-certified products to Saudi Arabia and other Gulf countries.

As regards the Russian market, we see upside potential in the growing demand for ready-to-cook and ready-to-eat products. We are focusing on increasing sales of value-added products such as marinated ready-to-cook products, smoked sausages and ready-to-serve foods. Our strategy calls not only for leadership in key meat categories, but also in high-margin food segments.

Increasingly more Russian consumers eat out or order food from cafes and restaurants, according to recent research. So we intend to strengthen our foothold in the HoReCa segment by stepping up cooperation with our existing partners and new restaurant chain operators.

Cherkizovo Group's plans call for both organic growth and M&A activity.

Our key competitive edge is still secured by vertical integration, diversified production, recognizable brands and consumer confidence. Moreover, the Group is a technology leader in the Russian food industry. We have been working hard to solidify our lead and are confident that we will reach our long-term strategic goals.

Looking back on the year, I would like to acknowledge the contribution of all Cherkizovo employees, from support staff to senior management. Our achievements result from the hard work of many people. I am sure even more far-reaching and high-potential initiatives lie ahead of us.

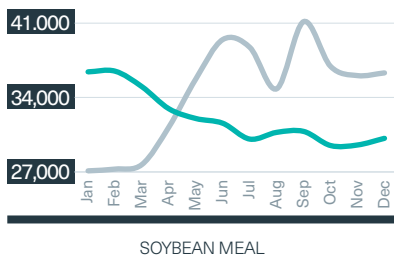
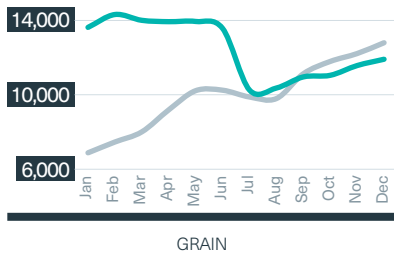
Sergey Mikhailov
CEO

MARKET ENVIRONMENT

SUPPLY TRENDS

Every month Cherkizovo Group prepares its Industrial Meat Supply (IMS) Index, based on statistics from Russia's Federal State Statistic Service (Rosstat) and Federal Customs Service and the Eurasian Economic Commission.

PRICES FOR GRAIN AND SOYBEAN MEAL, RUB/t



● 2019
● 2018

Source: Institute for Agricultural Market Studies (IKAR)

During 2019, the IMS Index increased by 2%. The main drivers were:

1. Growth in production costs

Pig and poultry production costs rose primarily due to a 23% increase in the price of feed wheat. The concurrent 8% drop in the price of soybean meal could not offset this factor.

2. Growth in pork production

Despite more ASF outbreaks, pork production in Russia (including farm households) grew by 5% in 2019, almost maintaining the previous year's rate.

3. Changes in the structure of meat imports by country

On 1 December 2017, the Federal Service for Veterinary and Phytosanitary Surveillance of Russia (Rosselkhoznadzor) banned shipments of pork and beef from Brazil due to the use of ractopamine (a blacklisted growth promoter and a possible carcinogen) by Brazilian producers. In November 2018, the ban was lifted, and a positive trend for non-CIS imports was already observed in February 2019. In 2019, imports from non-CIS countries rose by 41%, boosting supply and pushing down prices in the domestic market in the first half of the year.

4. Opening of the Chinese market for Russian poultry

After the first poultry shipment was sent to China in late February 2019, supplies began to gradually increase. In June 2019, the export trend turned positive year-on-year, and in December, export volumes grew 1.5 times, reaching record values. Throughout the year, shipments increased by 28% (excluding chicken feet), which reduced pressure on export positions (wings and thighs) in the domestic market.

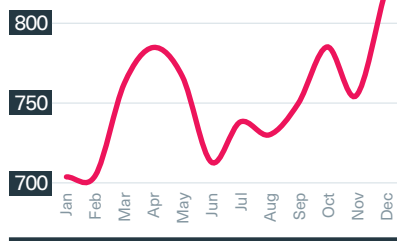
5. Record wholesale prices at the end of 2018

From late 2018 to early 2019, prices were at record highs in both wholesale and retail channels. This and a stagnation in real disposable income among the population contributed to a decrease in demand from end customers. The sustainedly high prices led to a reduction in meat sales in volume terms, according to panel research by GfK.

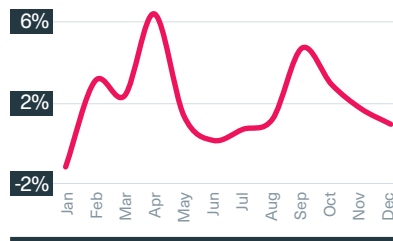


The IMS Index describes the dynamics of supply trends and meat consumption in Russia. The composite measure includes individual poultry, pork and beef supply indices. It provides an operational summary on the industry and is an indicator for predicting future market developments.

COMPOSITE INDUSTRIAL MEAT SUPPLY INDEX



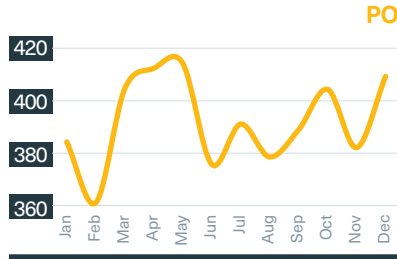
CHANGES IN THE COMPOSITE INDUSTRIAL MEAT SUPPLY INDEX IN 2019 VS. 2018, %



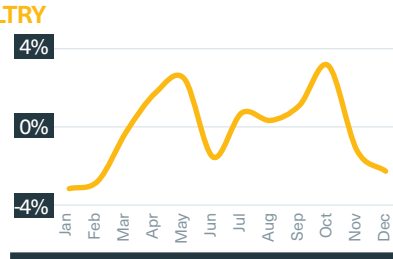
In 2019, the Industrial Meat Supply Index of poultry was flat compared with 2018.

The measure includes both turkey and chicken. According to Cherkizovo's estimates, turkey production grew slightly due to the increased production at Damate, while chicken meat volumes remained at the same level as in 2018. Another reason for supply stagnation was the active export of wings and quarters to China in the second half of the year.

THE INDUSTRIAL MEAT SUPPLY INDEX

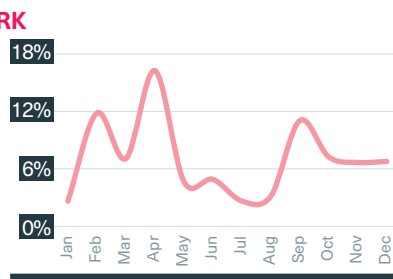
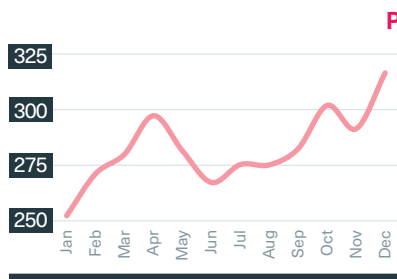


CHANGES IN THE INDUSTRIAL SUPPLY INDEX OF IN 2019 VS. 2018, %



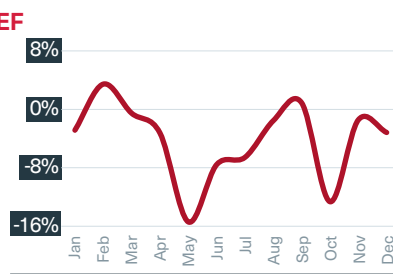
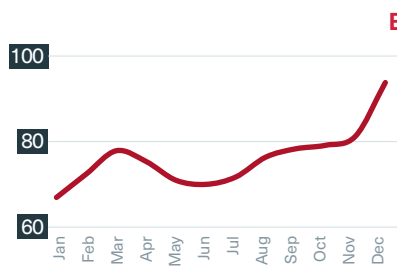
In 2019, the Industrial Meat Supply Index of pork grew by 7%.

The trend had been maintained since 2018. The main driver of pork supply throughout the year was growing production among farm businesses (up 7%). The difference between production and supply can be explained by a decline in imports and an increase in exports. According to our estimates, in 2020 the Index will continue to grow as large companies eye more production gains.



In 2019, the Industrial Meat Supply Index of beef lost 4% compared with 2018.

Despite the fact that beef production increased by 0.8% over the year, supply shrank due to a fall in imports from non-CIS countries and Belarus. The reduction of shipments from Belarus was associated with the Rosselkhoznadzor ban on the import of bone-in beef to Russia from countries that do not have official disease status from the World Organization for Animal Health, (effective from April to November 2019).



Source: Rosstat, FCS, EEC

MARKET ENVIRONMENT

Nº1

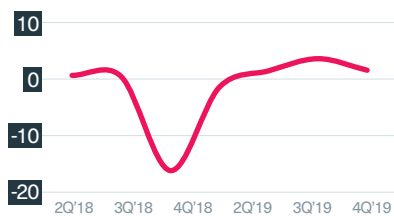
Cherkizovo in the Russian market of meat products

DEMAND TRENDS

In 2019, for the first time in a long period, real disposable income increased slightly (up 0.8%). According to Bloomberg, GDP grew by 1.3%, and household consumption added 2.5%. Retail prices for pork and chicken meat gained 4% and 10%, respectively.

In 2019, many food products went up in price, particularly due to the increase in VAT from 18% to 20%. The upswing in chicken meat prices for consumers can be explained by the high level of wholesale prices for whole chickens since the end of 2018, which contributed to higher purchase prices for retail chains.

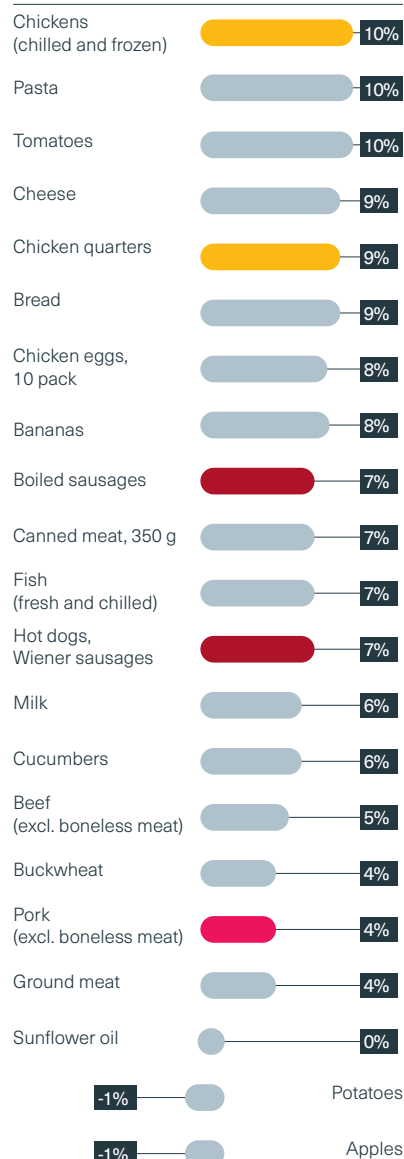
REAL DISPOSABLE INCOME, %



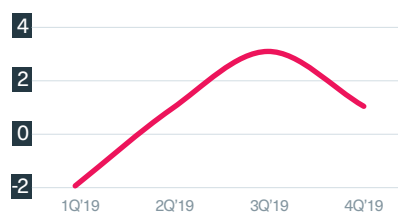
Source: Rosstat

CHANGES IN FOOD PRICES IN 2019, %

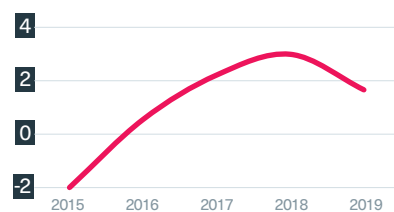
Prices for certain types of products, y-o-y 2019 vs. 2018



CHANGE IN GDP AND IN REAL INCOME OF THE POPULATION Y-O-Y, %

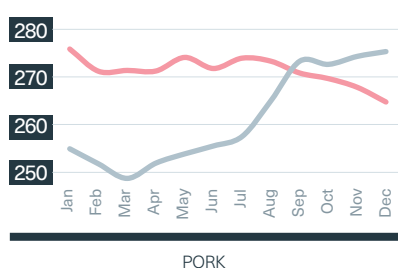


GDP



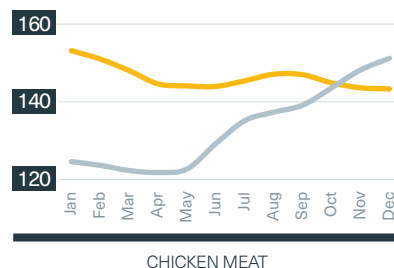
REAL INCOME OF THE POPULATION

RETAIL PRICES FOR PORK AND CHICKEN MEAT, RUB/kg (incl. VAT)



PORK

● 2019
● 2018



CHICKEN MEAT

● 2019
● 2018

Source: Rosstat

CHERKIZOVO GROUP'S RANKING IN INDUSTRY RATINGS

Cherkizovo Group is the leading meat producer in Russia, with a share of 6.8%*. In 2019, the Company strengthened its leading position in broiler production, increasing its share in total output by 2.3 p.p. to 12.4%. The growth was attributable to the newly acquired Altaisky Broiler and Belaya Ptitsa's assets in the Kursk Region.

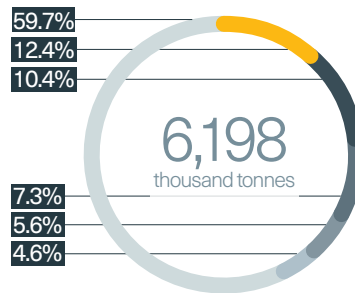
Cherkizovo Group remained Russia's second largest pork producer. The launch of new pig production facilities in the Penza Region allowed Cherkizovo to narrow the gap with the leader of the ranking and increase its share by 0.4 p.p. to 6.5%.



The Group moved into **second place in the ranking of turkey producers, having secured a 14.2% share of total output.** The main driver was Eurodon's exit from the market.

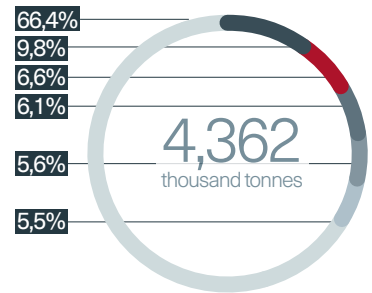
RUSSIAN MARKET IN 2019

POULTRY



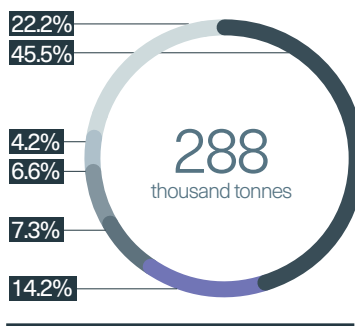
	thousand tonnes
● Cherkizovo	766
● Resource	645
● Prioskolie	452
● Tkachev Agrocomplex	346
● BEZRK-Belgrankorm	287
● Other	3,702

PORK



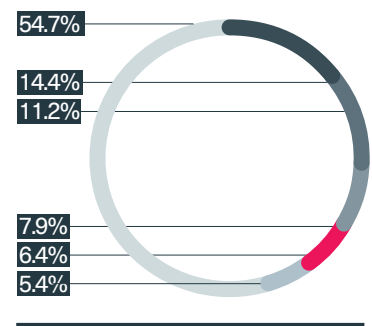
	thousand tonnes
● Miratorg	427
● Cherkizovo	286
● Velikoluksky	267
● Rusagro	243
● Agrarnaya Gruppa	242
● Other	2,897

TURKEY**



	thousand tonnes
● Damate	131
● Cherkizovo	41
● Krasnobor	21
● Morozovskaya	19
● Eurodon	12
● Other	64

PROCESSED MEAT



	Share in 2019	Change
● Ostankino	14.4	0.4 p.p.
● ABI GROUP	11.2	2.2 p.p.
● Talina	7.9	(0.7) p.p.
● Cherkizovo	6.4	(0.8) p.p.
● Velikoluksky	5.4	1.2 p.p.
● Other		(2.3) p.p.

* Based on Rosstat's cattle, poultry and pork production data (incl. farm households) for 2018, as well as on the Agroiinvestor ranking for 2018.

** Slaughter weight.

OUR STRATEGY

STRATEGIC FACTORS

COMPANY

Cherkizovo Group is the **largest vertically integrated consumer-driven meat producer in Russia**. The Company produces high quality and healthy products, focusing primarily on fulfilling the customers' demands and high expectations.

We use the most advanced technologies in production and process management. The Group ensures that its facilities follow the lean manufacturing standards and that they comply with all necessary regulations regarding biosecurity.

SOCIETY'S EXPECTATIONS

Food security program and export development

Cherkizovo invests heavily in the development of the agriculture, providing food security for the Russian people. After achieving self-sufficiency in terms of producing different types of meat, the next step in developing Russia's agricultural industry was increasing its exports. The Company began scaling up exports to countries in The Middle East, Asia and CIS.

A healthy way of life

Nowadays, more and more people are becoming interested in living a healthy life. The majority of Russian consumers are now thinking about what they eat and drink and the impact it has on their health. According to research conducted by RIA-Rating⁺, citizens of Moscow and Saint-Petersburg are now paying more attention to their lifestyle choices than in the previous year. Given the increasing trend towards healthy living, Cherkizovo Group has been developing its range of healthy eating products. Special labels enable customers to pick up the Company's products that have special dietary characteristics and contain no artificial additives.

Changing patterns of consumption

The new generations of young people tend to spend less time cooking at home than their older counterparts. This has led to a growth in the popularity of ready-to-cook and ready-to-serve meals. In comparison with the older generation, young people place more emphasis on the convenience and quality of these products. Another increasingly important criterion that young people consider when choosing their products is "sustainability". This category includes: a responsible production process, no violations in the supply chain, environmental footprint, etc...

Cherkizovo Group understands these new consumption patterns and, in response, is developing ranges of ready-to-cook and ready-to-serve meals. The use of smaller, more convenient packaging will lead to an increase in consumption waste. The Company sees this challenge and, together with partners, is working to resolve it.

Humane treatment of animals

Across the entire world, there is a growing interest in animal welfare. This is reflected in Russia, where more and more consumers are paying attention to the conditions in which animals are kept. Cherkizovo is committed to ensuring the humane treatment of animals across all of its sites. Company staff even received training in the animal welfare program.

⁺ RIA-Rating published its 2018 survey, demonstrating which regions of Russia are more committed to living a healthy [lifestyle](https://riarating.ru/infografika/20191001/630135852.html)<https://riarating.ru/infografika/20191001/630135852.html>.

CHALLENGES AND OPPORTUNITIES

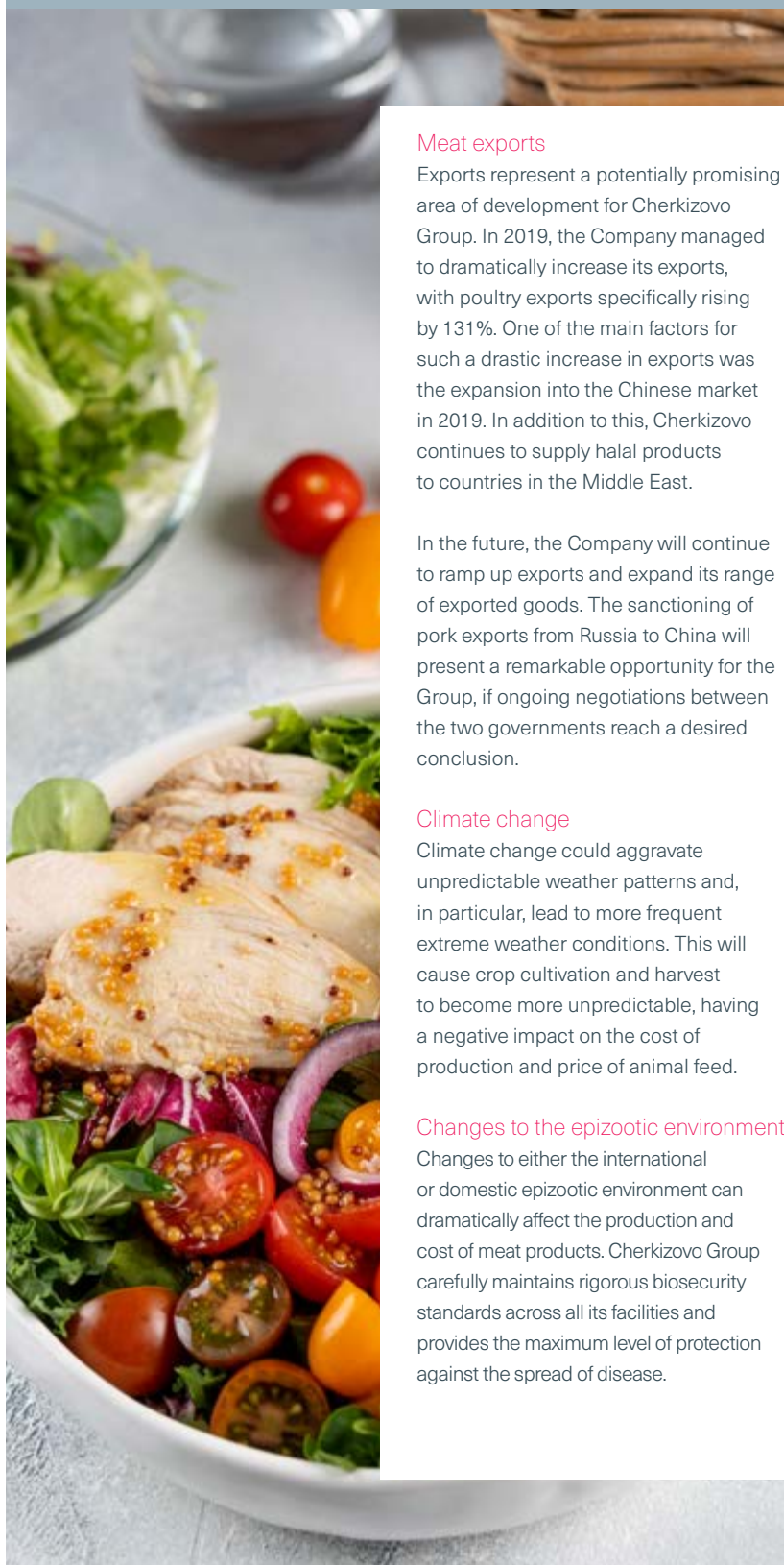
SUSTAINABLE DEVELOPMENT

Cherkizovo group recognises its responsibilities to a wide range of stakeholders, including consumers, employees, local communities, investors and many more. The Group is working on sustainable business development by building relationships and partnerships with all stakeholders.



Our Mission

Food production **is not just our business** – making the best meat products in the country **is our passion and mission.**



Meat exports

Exports represent a potentially promising area of development for Cherkizovo Group. In 2019, the Company managed to dramatically increase its exports, with poultry exports specifically rising by 131%. One of the main factors for such a drastic increase in exports was the expansion into the Chinese market in 2019. In addition to this, Cherkizovo continues to supply halal products to countries in the Middle East.

In the future, the Company will continue to ramp up exports and expand its range of exported goods. The sanctioning of pork exports from Russia to China will present a remarkable opportunity for the Group, if ongoing negotiations between the two governments reach a desired conclusion.

Climate change

Climate change could aggravate unpredictable weather patterns and, in particular, lead to more frequent extreme weather conditions. This will cause crop cultivation and harvest to become more unpredictable, having a negative impact on the cost of production and price of animal feed.

Changes to the epizootic environment

Changes to either the international or domestic epizootic environment can dramatically affect the production and cost of meat products. Cherkizovo Group carefully maintains rigorous biosecurity standards across all its facilities and provides the maximum level of protection against the spread of disease.

OUR STRATEGY

STRATEGIC PILLARS

Cherkizovo Group's strategy is focused around the sustainable business development, maintaining its financial growth and securing its position as the meat market leader. The Company is nearing the completion of its investment phase, and will turn its focus to R&D, developing consumer brands, expanding its range of ready-to-cook and ready-to-serve meals, boosting exports and its food service channel.

STRATEGIC GOALS

Segments



Strategic goals

- Increasing grain yields
- Providing **40-60%** of own animal feed

- Becoming one of the two main players in the turkey market
- Developing the Pava-Pava brand
- Growing the business by expanding production capabilities

2019 investment

- Fulfilled the 2019 land amelioration programme
- Increased the share of soy and corn used in crop rotation

- Began the construction of the second phase of Tambov Turkey.
- Released four new high value-added products.

2020 and medium term plans

- A project to improve productivity will be piloted in 2020. Based on its results, a decision will be taken regarding its roll-out
- Corn and soy will become the main crops
- The construction of an oil extraction plant

- Ensuring the second phase of Tambov turkey is operational by 2021 and increasing output by **50%**
- Releasing new high value-added products, in particular, in the food service segment
- Further expansion of production capacities

Expected results

- The boost in productivity and new oil extraction plant will reduce the cost of animal feed, mitigate FX risks and decrease the cost of production

- An increase in production will allow us to expand our sales into new regions and increase our market share

Key Elements of Cherkizovo's Strategy

1

Strengthening its leadership in the meat market

2

Strengthen leadership as a supplier of branded meat products to Russian retailers

3

Development of new sales channels – food service and export

4

Increase the share of sales of high value-added products up to 80%.

5

Development of core brands

6

Sustainable financial growth



PORK

- Increasing productivity
- Constructed five new nursery and finisher sites in the Penza Region
- Launching two new nursery and finisher sites in the Penza Region
- New sites and more productive breeds will allow us to increase the amount we produce



POULTRY

- Becoming the Russian poultry market leader
- Developing the Petelinka and Kurinoe Tsarstvo brands
- Growth driven by M&A deals
- Began selling Petelinka in the Siberian Federal District
- Increased exports
- Acquired Rovensky Broiler
- Ramped up production at Altaisky Broiler to **100 000** tonnes
- Development of the food service segment
- Developing new product categories
- Increasing exports to the Middle East, CIS and China
- By expanding our production capacities, we can increase our sales in the Siberian Federal District. Altaisky Broiler will become the most suitable site for exports to China.
- By taking the Company into new areas and increasing exports, we can diversify our business and mitigate the FX risks.



MEAT PROCESSING

- Developing Cherkizovo brand
- Technological leadership in terms of meat production
- 2019 saw the installation of new production equipment, such as a bacon slicing line and a sausage packaging machine, allowing us to produce new types of products.
- Achieving a higher level of profitability than the industry average
- Ensuring our fully automated Kashira-1 is running at full capacity.
- Extending our key product range.
- Expanding sales across Russia.
- Developing the food service segment
- Increasing exports.
- Developing new product categories.
- The expansion of sales will allow us to increase our market share and consolidate our brand

BUSINESS MODEL

OPERATING CHART



GRAIN

593

thousand tonnes
Grain

300

thousand ha
Total land bank



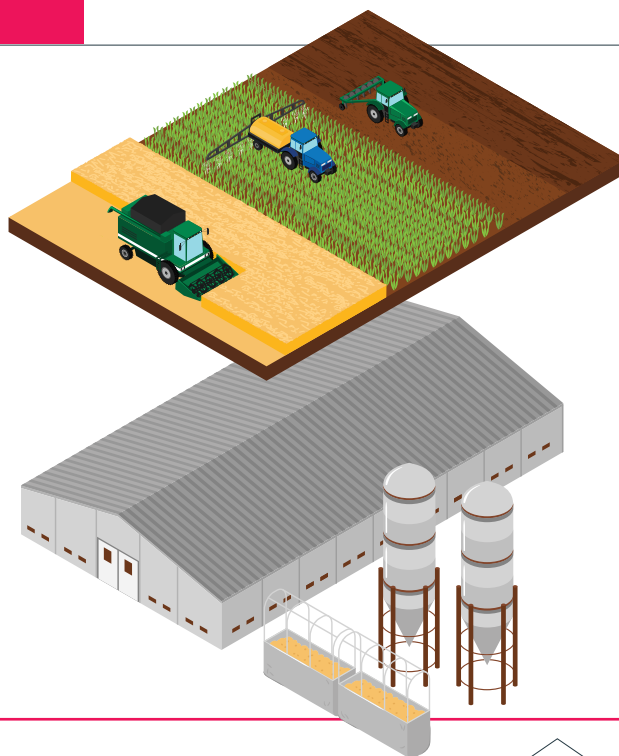
FEED

2,2

mln tonnes
Feed

9

feed mills

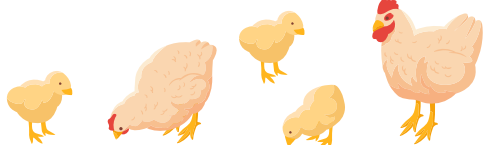


MEAT PRODUCTION

Fertilizers



POULTRY



663

thousand tonnes

9

poultry farms



PORK



275

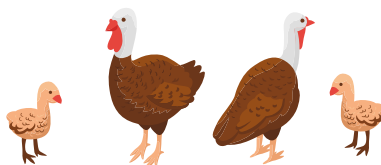
thousand tonnes

21

combined
nursery and finisher sites



TURKEY



39

thousand tonnes

1

turkey JV

Cherkizovo Group uses **a vertically integrated business model.**

Our vertically integrated business model offers the following advantages:

- control throughout the production cycle,
- adaptability to market conditions,
- economies of scale,
- quality excellence.



RETAIL

HORECA

EXPORT

63%

share of sales

5%

share of sales

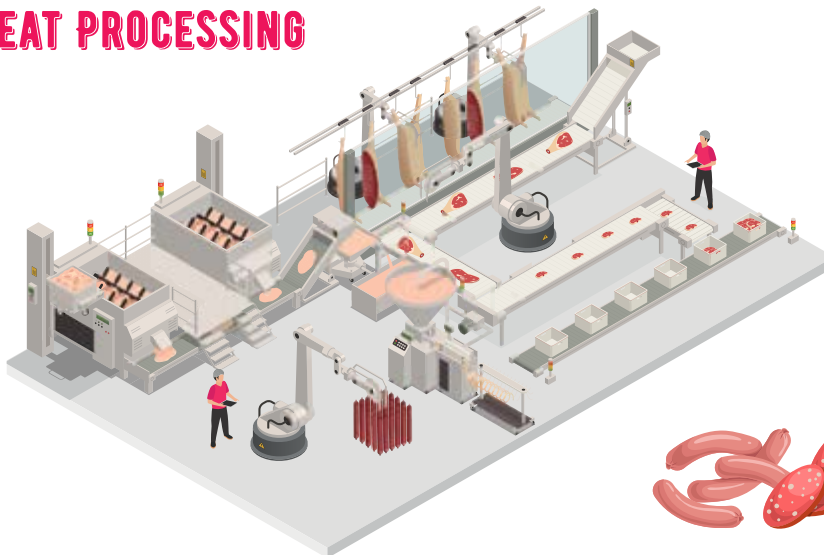
5%

share of sales

EXTERNAL SALES



MEAT PROCESSING



246
thousand tonnes

8
plants



BUSINESS MODEL

RESOURCES

Investment in expansion and modernization of production facilities

8,6

RUB billion
of CAPEX in 2019

5

new production facilities
launched in 2019

Key acquisitions in 2019:

Rovensky Broiler

+13

thousand ha
land bank

International certificates

HACCP

**GOST R ISO 9001 -
2008 (ISO 9001)**

**Food Safety System
Certification**

Efficient logistics

170

thousand orders
shipped every month

PERFORMANCE

Sustainable growth underpinned by strong financial position

120.1

RUB billion
Revenue

20.6

RUB billion
EBITDA

17.2%

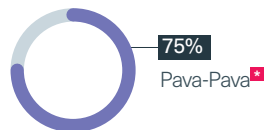
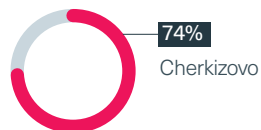
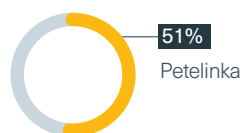
EBITDA margin

2.97

Net debt / EBITDA

Marketing research, consumer opinion polls

High level of key brand awareness in Russia:



* For Pava-Pava, brand awareness is shown for Moscow and St. Petersburg.

High-quality, tasty and healthy foods

32

new **chicken** products

4

new **turkey** products

Rebranding Cherkizovo

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

Dividends

Total **dividends per share** based on the 2019 results:

109.71

RUB

including:

- RUB **48.79** per share of interim dividends announced in August 2019
- RUB **60.92** per share of dividends for 2019 recommended by the Board of Directors for approval by the General Meeting of Shareholders.

In 2019, our business model proved its resilience and efficiency.

Despite lower pork prices in 2H 2019, the Group delivered a strong performance.

Highly qualified employees

28

thousand employees

Procurement

52

RUB billion worth of products was procured in 2019, 96% - from the local suppliers

R&D:

Own R&D center

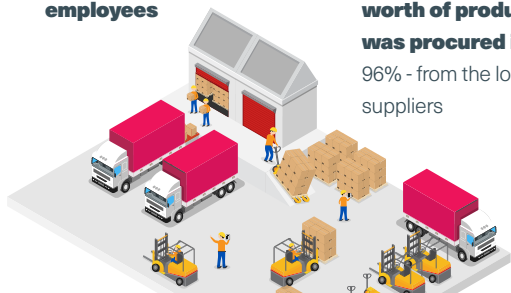
1,500

sq m of unique laboratory facilities
1,000 complex tests

Quality control system

>500

employees in a quality control system



Youth programs

Dual education programs at

4

universities

Environmental impact

Invested in **environmental protection** projects

512.4

RUB million

Benefits for local communities

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

12.8

RUB million spent on **charitable** projects

119

students are covered since 2017

7.4

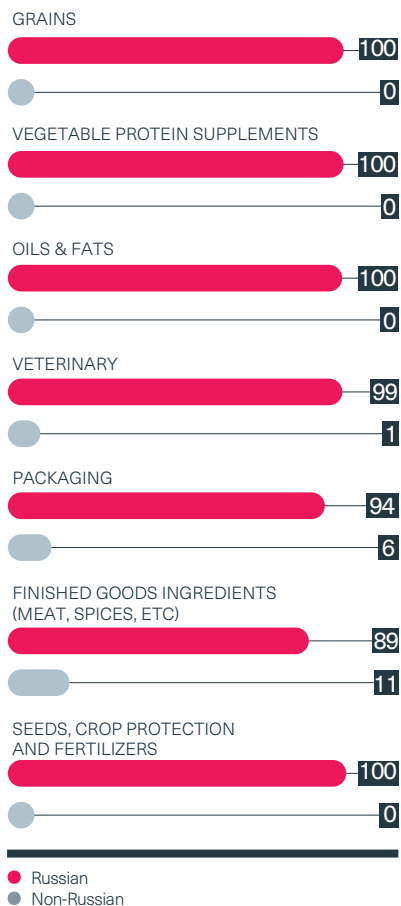
million tonnes of **waste** generated, of which 48% recycled

SUPPLY CHAIN

PROCUREMENT

Cherkizovo Group carries out purchases in accordance with all relevant Russian legislation. In addition, the Company participates in industry initiatives aimed at increasing transparency in the agricultural market. The Company is a member of the Association of Bona Fide Agricultural Producers and is a signatory to the Agricultural Charter regulating the trade in agricultural products.

TABLE SUPPLIER STRUCTURE, %



The requirements of the Charter extend to all of the Group's suppliers. If it becomes known that a supplier has stopped complying with the necessary requirements, the Company ceases to work with them.

To ensure the transparency and competitiveness of its procurement procedures, Cherkizovo Group has switched its procurement activities to the Tender.pro electronic trading platform. In 2019, all sectors of the Group started using the platform for procurement. During the last year, the Company held more than 7 thousand tenders, a 2.5 times increase compared to the previous year.

Cherkizovo Group has a centralized procurement function in place. This is a complementary system where procurement is broken down by category and geographical location. The company seeks to work with local suppliers, small and medium businesses. Specifically, the Group has established a system for purchasing grain from regional producers. Cherkizovo's specialists find local suppliers, assess the quality of goods and organize deliveries to the Company's facilities. In 2019, 35% of all grain was purchased in this way.



All suppliers of the Group are checked for compliance with the requirements of the Agricultural Charter.

LOGISTICS

Cherkizovo uses an efficient logistics system to move animals and animal feed between the Group's facilities and to deliver products to customers. On average, 711 trucks are involved in delivery per day, 20% of which are owned by the Company. The Group operates 30 warehouses, 16 of which are owned by Cherkizovo. The Group processes about 170 thousand orders monthly, which corresponds to more than 100 thousand tonnes of transported cargo.

Together with its partners, the Group is working to optimize transportation costs. In particular, large containers are used for transportation internally within the Group, which reduces the use of packaging materials and the environmental impact.

Grain segment

The Group's vertically integrated supply chain starts with the Grain segment. The Group purchases seeds, fertilizers and crop protection products in accordance with its production plans. The majority of the harvest is used for the production of feed for the Group's livestock farms.

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

52

RUB billion
**worth of products
 procured in 2019**

The Cherkizovo Group has built an **efficient supply chain** in line with international best practice that enables us to deliver our products to the shop shelves as quickly as possible. Its smooth operation is ensured by a team of highly qualified experts with extensive experience working in leading international FMCG companies.



Poultry and Pork segments and the Tambov Turkey joint venture

Our poultry and pork facilities procure feed and other resources necessary for animal breeding.

The Company sells its farmed pigs in the form of livestock (in 2019, this share was 15%). 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. The Group seeks to increase the share of pork supplied to in-house production facilities.

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. The company balances seasonal fluctuations in demand for its products using its freezing 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 (mainly nationwide chains) and other customers.

OUR VEHICLE FLEET

We use our own vehicle fleet to transport animals and products between the Company's facilities. This is an important factor in ensuring biosafety. In 2019, the Group owned 1,466 vehicles.

Transportation is closely monitored and controlled by veterinarians, which eliminates the risk of biological threats spreading along the supply chain. In addition, the Company makes sure that the transportation of animals is humane, so that they do not suffer injuries during transportation.

SALES

Cherkizovo Group is a leading market player selling chicken, turkey and processed meat products to customers across Russia. For major orders, we make direct deliveries straight from our meat processing plants. Smaller orders are packed in the BICOM distribution centre in Moscow and in the Company's subsidiaries in St. Petersburg, Krasnodar, Yekaterinburg, Ulyanovsk and Penza.

In 2019, the Company implemented shipments based on the SAP system in all warehouses, and also implemented system SAP EWM (Extended Warehouse Management).



For more sales information see **page 84**.



In 2019, Cherkizovo Group **successfully integrated Altaisky Broiler** into its procurement and logistics system. All the business' grain is purchased from local suppliers. All other supplies were sourced from proven Cherkizovo suppliers.

SUPPLY CHAIN DEVELOPMENT PLANS

Cherkizovo Group continues to improve the logistics function and supply chain processes through better planning and automation. The Company reduces logistics costs by organizing joint shipments for its segments, by improving transport utilization and leveraging advanced warehouse management systems. As always, the function's primary focus is on ensuring on-shelf product availability, optimized costs, food safety, including cold chain management, and workforce safety and security.

The Company also plans to increase procurement from local suppliers. In particular, we aim to increase the share of grain purchased from local producers to 50% of total procurement volume.

INVESTMENT PROGRAM

Cherkizovo Group is continuing to run its major investment program for business development, including projects to build new production capacities, improve operational performance, and ensure proper biosafety and high product quality.

Our key projects focus on Moscow, the Altai Territory, and the Moscow, Lipetsk, Penza, and Tambov regions. The program's top priority is to increase the output of branded and high value-added products, and boost operational efficiency.

The automated meat processing plant in Kashira marks a milestone for the Group and Russia's meat industry as a whole.

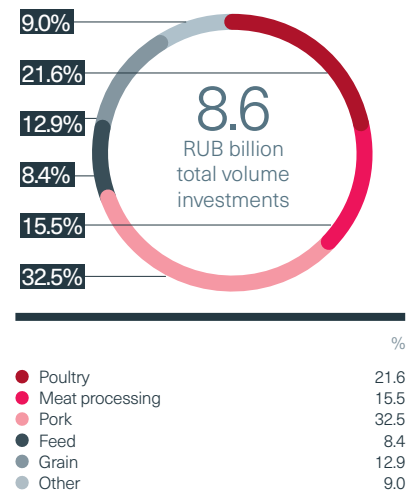
In 2019, the Group's investment cycle for the new production facilities was at its final stage, thus reducing the total spending from RUB 10.6 billion to RUB 8.6 billion.

Apart from production facilities, the Group invests in company-wide IT and personnel development projects. In 2019, the Company rolled out SAP HR software at six of the Group's companies. The rest are scheduled to receive it in 2020. With SAP HR, we are seeking to ensure centralized human capital management throughout the Group and store information on all employees a shared database. In another major project, we deployed SAP Extended Warehouse Management (SAP EWM) for better warehouse forecasting, streamlined product delivery, and supply volume optimization.

The Company is investing heavily in its vehicle fleet, including leasing new and replacing old vehicles. In 2019, we purchased new agricultural machinery, feed trucks, and animal transporters. Around RUB 0.6 billion was invested.

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

SHARE OF INVESTMENTS IN MAIN SEGMENTS, %



2019 HIGHLIGHTS

	Pork	Four nursery and finisher sites built in the Penza Region, marking the end of another production ramp-up cycle in the Pork segment
	Tambov Turkey JV	An expansion project launched to ramp up the capacity by 50% to 82 thousand tonnes from 2021
	Meat processing	New bacon and sausage slicing and hot-dog packaging lines commissioned
	Poultry	Investments in the acquired assets.



Investments in production projects by segment are described in the operating results sections on **page 64**.



Information on personnel development projects is provided on **page 114**.

QUALITY MANAGEMENT SYSTEM

Cherkizovo Group is committed to delivering high-quality, competitive products on par with the best international standards to meet the highest requirements and expectations of our customers and consumers and ensure achievement of the Company's strategic goals. In 2019, we established a centralized Quality Directorate to oversee compliance with the Group's quality policy. It has brought together the quality management functions of the following departments:

- pork slaughtering and processing,
- poultry and turkey slaughtering and processing,
- feed mills and grain elevators,
- centralized certification and standardisation.

The Directorate is also responsible for drafting methodologies and creating a centralized quality management system, as well as developing and implementing quality improvement programs. Cherkizovo Lab is also involved in the Directorate's activities.

The Directorate's management framework capitalizes on the expertise of international majors while also paying attention to the business structure and legacy of Cherkizovo Group.

2019 HIGHLIGHTS



Quality Management System

In 2019, Cherkizovo Group developed a comprehensive quality management KPI framework covering the Company's operations from farm to fork across all segments. We enhanced our supplier management system in line with the best global practices by introducing a risk-oriented approach. The Company launched a process to handle supply inadequacies in the Meat Processing segment and at Tambov Turkey. Starting from Q1 2020, it will be extended to the Poultry segment. In 2020, we plan to use our risk-oriented approach to introduce quality control for incoming supplies.

In 2019, we started a project to improve the quality of our logistic processes. During the first stage, we introduced centralized temperature monitoring in warehouse logistics and invested further to enhance our cold chain.

In the reporting year, Cherkizovo also launched a large-scale project to assess product quality in stores with the help of the Chicago digital platform. In 2020, we plan to pilot machine vision for quality control at production lines.



Animal Welfare

The Company underwent production certification according to McDonald's standards and became one of Russia's first meat producers to be certified against the Animal Welfare standards. Currently, only five production facilities in Russia, including two owned by Cherkizovo, are Animal Welfare-certified. Designed to improve meat quality, these standards cover animal treatment practices at every stage from farm to processing. The certification is mandatory for major global companies and fast food chains.

Our employees received extensive training in Animal Welfare and completed the Bristol Animal Welfare Assurance Program. The courses were attended by 100 employees and managers from the Poultry segment.

≈ **100**

employees and managers from the Poultry segment received **training under the standard Animal Welfare**

QUALITY MANAGEMENT SYSTEM



Laboratories

Following the creation of the centralized Quality Directorate, the Company relaunched its network of local laboratories under the auspices of Cherkizovo Lab. This will expand the list of available tests in 2020 and significantly reduce the associated costs, as well as the waiting time for test results. Moreover, local laboratories can now also contribute actively to projects aimed at improving cultivation and processing across the Company's assets. Cherkizovsky Meat Processing Plant's laboratory confirmed its certification under GOST R / ISO 17025. The lab's equipment and staff competence received high marks from external auditors



Certificates

Our main achievement in the reporting year was successful certification by food industry giants – KFC, McDonald's, Burger King, and Cargill – which have very stringent requirements for all production processes, including the humane treatment of animals.

All of the Poultry segments and Tambov Turkey's slaughterhouses are certified against FSSC 22000:2011.

In 2019, new Group assets were certified to the standard, including the facilities in Belgorod and Kursk, as well as the automated plant in Kashira. On top of that, all of our meat processing plants are certified under GOST R ISO 9001 – 2008 (ISO 9001).

The Vasilyevskaya poultry farm has been repeatedly confirming its halal certification.



Personnel

Our employees are key to delivering superior product quality. At Cherkizovo Group, each employee is responsible for ensuring product quality and safety while also playing an active role in supporting and continuously improving the Company's quality and food safety management systems. In 2020, we plan to continue enhancing our quality management system. We are looking to further reorganize and strengthen our team and improve the expertise of our existing personnel. The Company will place major emphasis on promoting a production quality culture and employee training. Our continued focus on enhancing the safety and quality assurance system should take the Company to the next level.

In November 2019, the Group held its first Quality Day, with events taking place at 19 sites across 10 regions, as well as the Company's offices. Over 2,000 people took part in the Quality Day.

>500

people

work in the Quality Assurance

ranging from supervisors and lab assistants to managers as at the end of 2019



ELEMENTS OF THE QUALITY MANAGEMENT SYSTEM

Element	Description
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. It has been implemented across the Group's production facilities.
Good Manufacturing Practice (GMP)	Our production processes comply with good manufacturing practices.
Food Safety System Certification (FSSC)	Our effective management structure provides for development of robust food safety systems as part of the overall effort to ensure product quality and food safety.
Animal Welfare (Humane Husbandry)	These standards require compliance with five principles of humane treatment of farm animals and birds throughout their life, helping reduce loss rates and meet the requirements of global FMCG companies.
Mercury, a government system for electronic certification of animal products	Cherkizovo Group has successfully implemented the system across its supply chain.
Laboratory control	All stages of the production process feature laboratory studies on an ongoing basis to ensure regulatory compliance. In addition to mandatory control procedures, the Company uses voluntary product control methods, including at Cherkizovo Lab.
Employee training	The Company offers its employees regular in-person and online training sessions in food safety and quality standards.
Requirements for suppliers	All new and current suppliers are required to undergo regular evaluation for regulatory compliance and ability to supply products meeting the quality and food safety requirements.
Consumer feedback	We have implemented an efficient consumer feedback management system. All complaints and requests are promptly reviewed by the quality management functions at our production facilities. We regularly monitor actions taken to address consumer complaints.
Quality culture	We make sure that employees realize the importance of quality assurance in their work. Quality is everyone's responsibility.

POULTRY

2019 PERFORMANCE

The Poultry segment showed robust growth in 2019, with sales gaining 22% to reach 663 thousand tonnes vs. 544 thousand tonnes in 2018 thanks to the assets acquired late into the year and efficiency improvement initiatives.

The average sales price increased by 9% to RUB 105.98 per kg, driven by a larger share of higher value-added products.

EFFICIENCY IMPROVEMENT

Ensuring uninterrupted business was a key efficiency priority for Cherkizovo in 2019. Around 80% of our reproduction and rearing facilities received backup power sources, with the remaining 20% to follow suit in 2020.

Automated outage notifications are now available throughout the segment thanks to the newly installed control systems.

In the reporting year, the Company continued standardizing technology processes across its sites. Standard operating procedures were outlined fully for the Poultry segment, and a distance learning system was made available for its on-site employees.

The Group continued concentrating its efforts on high product quality, with the Poultry segment focusing on poultry weight improvement, production efficiency, and genetic changes in crossbreds.

FINISHED PRODUCT SALES, thousand tonnes



REVENUE FROM FINISHED PRODUCT SALES, RUB bln



AVERAGE SALES PRICE, RUB/kg



OPERATIONAL PERFORMANCE, t

Indicator	2017	2018	2019	19/18, %
Chicks per hen housed	118	111	117	3.6%
Hatchability, %	78.0%	79.1%	79.5%	0.4 p.p.
Broilers days on feed	37.4	38.3	38.4	0.3%
Feed conversion rate (FCR)	1.63	1.66	1.61	-2.8%
Yield, %	85.4%	85.8%	86.4%	0.7 p.p.
Livability, %	95.4%	95.2%	94.6%	-0.7 p.p.
Live weight, gr	2,267	2,323	2,401	3.3%

Thanks to the measures taken, the segment set all-time records for the feed conversion rate and average daily weight gains.

9

poultry farms

663

thousand tonnes
Sales volume

106

RUB/kg
Average sales price

70.3

RUB billion
Revenue

23.1%

Revenue CAGR

SALES AND BRAND DEVELOPMENT

At Cherkizovo Group, we seek to increase the share of higher value-added products in our total output. In 2019, revenues from Petelinka and Kurinoe Tsarstvo grew by 13% and 3%, respectively.

Modern trade remained our primary sales channel, accounting for 45% of products sold. HoReCa and exports are also high on the Company's agenda.

In the HoReCa segment, we have been working with some of the largest fast food companies, including KFC, Burger King, McDonald's, and pizza chains. In 2019, HoReCa sales rose by 95%, reaching 7% of the Poultry segment's total revenue. We are one of the few Russian companies able to comply with the most stringent requirements set by leading foreign players in the fast food universe⁺ – and the Group looks to strengthen its relationships with these customers.

In 2019, exports added 131% to account for 5% of the segment's sales as the Group's companies were cleared to sell in China. Looking ahead, we plan to grow our exports, with higher value-added products as one of the drivers.

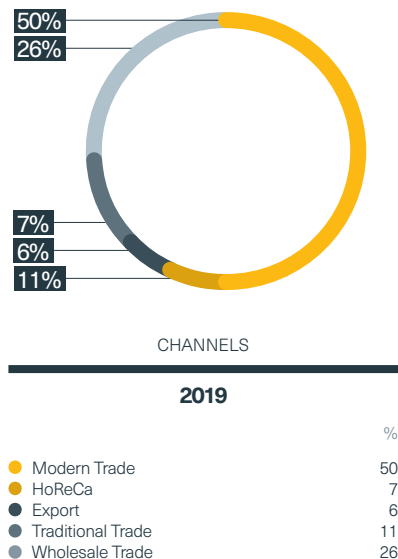
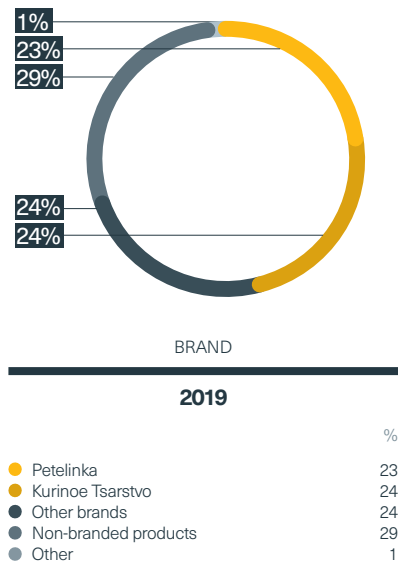
Cherkizovo Group **seeks to improve the quality of its premium brands while also gaining a stronger foothold in export and HoReCa markets.** New technologies allow us to comply with the higher production and quality requirements set by new customers. In 2019, we adopted the following to this end:

- **Animal Welfare principles**
- **QA metrics for meat**

⁺ For further details on how we comply with these requirements, see the #Quality Management System section, **page 61**.

POULTRY

POULTRY SALES, %



BIOSECURITY

Cherkizovo Group is committed to ensuring biosecurity under a dedicated project covering the entire value chain, from feed mills, logistics and warehouses to reproduction, rearing and slaughter facilities. This project draws on the world-class poultry expertise of Cargill, Phytobiotics, Alltech, Kemin, Biomin, and WIC.

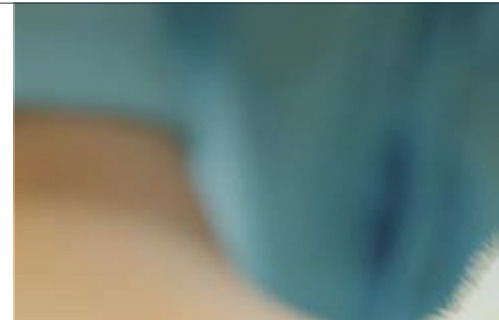
We do our best to minimize epizootic risks and protect the bird population by ensuring compliance with regulatory requirements and modern biosafety standards, strict access control, and thorough disinfection.

PRODUCTION IMPROVEMENTS

Cherkizovo Group continued improving its production capacities in the Poultry segment, with the Vasilyevskaya and Petelinskaya farms, Lisko Broiler and Kurinoe Tsarstvo Bryansk, receiving new rearing and processing equipment. In particular, Kurinoe Tsarstvo began producing chicken strips for Burger King.



In 2019, no cases of avian influenza were reported at the Group's facilities.



KEY INVESTMENT PROJECTS

Altaisky Broiler integration

Altaisky Broiler has begun using a new crossbred and implemented new technology procedures and practices in line with the Company's standards. Beyond upgrades, we shared our production experience by enhancing the team of managers and technologists, training staff, and introducing standard operating procedures. The upgraded Altaisky Broiler was able to produce 68.3 thousand tonnes of live-weight poultry, beating its 2019 target by a wide margin.





New assets

In 2019, Cherkizovo Group acquired **Rovensky Broiler for RUB 1.7 billion**. Located in the Belgorod Region, **this facility is capable of producing 80 million hatching eggs per year**, which fully covers our demand for hatching eggs following acquisitions in 2018.

1.9

RUB billion
**Investments
in the segment**



PLANS

Cherkizovo Group looks to expand its sales in the Siberian Federal District and abroad while also increasing the share of higher value-added products in its sales to HoReCa customers.

The two goals are set to be furthered through a capacity ramp-up at Altaisky Broiler. Its maximum annual output is slated to reach 100 thousand tonnes of live-weight poultry, which represents a roughly twofold increase in the output.

PORK

2019 PERFORMANCE

In 2019, Cherkizovo Group's Pork segment delivered strong results. Production grew by 15% to 284.2 thousand tonnes, and sales⁺ increased by 16% to 274.6 thousand tonnes. This growth was a result of an increase in mated inventory (11%) and increase in herd efficiency (5%). The difference between production and sales is because we run an internal gilt multiplication and development program and animals are retained instead of sold.

The average sales price decreased by 9% to RUB 89.14 per kg despite a growing cost of key feed components. The price drop was largely triggered by stiffer competition in the industry, with key players continuing to expand their production capacities despite stagnant purchasing power and lack of exports.

EFFICIENCY IMPROVEMENT

Cherkizovo has built one of the most efficient pork production systems globally. In 2019, the Company delivered all-time high results across most key performance indicators highlighted by achieving a 90% farrow rate across the entire system which includes our multiplication system. The commercial system utilizes PCAI (Post Cervical Artificial Insemination) that allows us to use less commercial semen than traditional AI (Artificial insemination).

The key factor for these results is our commitment to focus on investing in genetic improvement and creating a high health system so that our animals can achieve their genetic potential so we can produce the highest quality pork possible. It takes years before seeing the results of genetic services investments on the shelf, so we feel confident that we will continue to be the market leader in providing the highest quality pork as we continue to make our genetic program and health services strategy as our top priority.

OPERATIONAL PERFORMANCE, t

	2017	2018	2019	18/19, %
Productive sows, (Mated Inventory)	72,375	72,928	80,799	11%
Piglets born alive per sow per litter	12.5	13.1	13.4	2%
Pigs weaned per sow farrowed	10.5	11.2	11.6	3.5%
Pigs Marketed per mated female	24.5	27.5	27.9	1.5%
Average weight, kg	119.5	123.2	127.1	3%
Kg sold per sow	2,925	3,354	3,508	5%
Feed conversion finisher	2,6	2,56	2,55	0%

FINISHED PRODUCT SALES, '000 tonnes



REVENUE FROM PRODUCT SALES, RUB billion



AVERAGE SALES PRICE, RUB/kg



⁺ Sales to both the Group's entities and third parties.

13**pork production
complexes****21****combined nursery
and finisher sites****2****sow farms****275****thousand tonnes
Sales volume****89.1****RUB/kg
Average sales
price****24.5****RUB billion
Revenue****14.5%****Revenue CAGR**

In 2019, Cherkizovo Group joined **Pipestone Applied Research**, the world's most respected swine research organization globally. This decision ensures that we continue to challenge our own SOP practices based only on research and science so that we are always utilizing best practices.

PORK

In 2019, the number of productive sows increased by 11% to 80,799. The number of live born piglets per sow per litter also increased to 13.4, up 2% year-on-year. At the same time, total pigs marketed per mated female increased by 1.5%. Another solid result was a 5% growth in kg sold per sow to 3,508 kg.

QUALITY AND SAFETY

Cherkizovo's pig farms boast the highest livestock sanitary status in Russia enabling them to be classified as Compartment IV facilities in terms of biosafety. We maximize quality and safety at all stages of production, as well as during livestock transportation. To this end, the Group has developed internal standards for the protection and improvement of animal health and regularly updates them depending on the current epizootic situation.

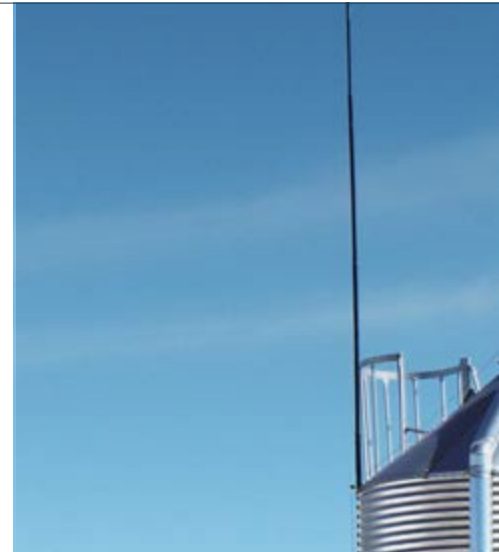
The Group's assets are reviewed by internal and external bio-security audits. The division has a monthly bio-security committee meeting that reviews the audit results and focuses on continuously improving our bio-security program. The programs are led by the groups highly qualified leaders who are regularly asked to speak at key global events as a result of Cherkizovo's success.

The Group is in process of converting the entire system to be needle free technology by introducing the Pulse needle free system to our operations. This investment ensures that we are extremely accurate when it becomes necessary to administer a treatment. The Pulse needle free system also increases employee safety and enhances the groups health services strategy.

Cherkizovo uses only its own vehicle fleet to transport livestock, which eliminates potential spread of infections from third parties. The Pork segment operates ten truck wash stations, where our vehicles are fully disinfected. Our trucks are properly equipped to transport livestock and their speed and routes are controlled by GPS tracking units.



For more details on Cherkizovo Group's quality management system, please see: Quality Management System, **page 61**.



KEY INVESTMENT PROJECTS

Wean to Finish sites in the Penza Region

In 2019, Cherkizovo Group continued to develop its pork presence in the Penza Region. During the year, we built and commissioned 5 wean to finish sites. Construction was faster and more efficient than at previous sites, reducing our construction costs. In total, the project consists of 7 sites in the Penza region.

The sites are based on a standard design maximizing the level of biosafety. Each of the sites has a capacity of c. 45 thousand market hogs and 5.8 thousand tonnes of products.





All of the segment's employees are tested for the knowledge of the biosafety standards and standard operating procedures in the segment.

2.8

RUB billion.

**Investments
in the segment***



* Excluding VAT.

PLANS

Cherkizovo Group's mid-term strategy for the Pork business is to boost performance by using cutting-edge production facilities and putting in place one of world's best finisher nutrition programs.

Cherkizovo Group is finishing production ramp-up cycle in the Pork segment. In 2020, the Company is considering building two more wean to finish sites in Penza Region.

Further improvement of animal breeding practices during all production phases is our top priority in the segment. The Group will continue maintaining the maximum possible biosafety level at its assets. The division will continue to focus on ensuring our genetic program. By 2021, the Company plans to complete our transition to the needle-free injection system.



MEAT PROCESSING

2019 PERFORMANCE

In 2019, sales in the Meat Processing segment increased by 7% reaching 245.6 thousand tonnes. The growth can mostly be attributed to a 32% rise in half-carcass sales on the back of increased pork production. The average sales price[■] stood at RUB 162.96 per kg, down 4% on the 2018 level of RUB 169.94 per kg due to an increase in the sales share of half-carcasses, which offset the increase in the price for sausages and cuts.

PRODUCTION AND SALES OF FINISHED PRODUCTS

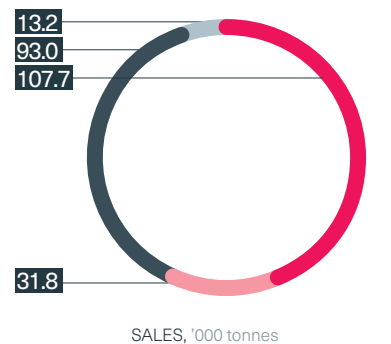
In 2019, Cherkizovo Group maintained leadership in meat processing, including in the lucrative dry and smoked sausage markets. The Group also consolidated its hold on the hot-dog, boiled sausage, ham and bacon markets.

In the reporting year, sales of finished products stabilized and once again began to grow. As a result, the total volume of sales rose by 1% compared to the previous year, reaching 107.7 thousand tonnes. The average sausage price remained virtually unchanged in 2019, rising by only 2% to RUB 187.7 per kg.

The 2018 acquisition of a 75% stake in Samson – Food Products has been extremely fruitful for the Company allowing it to consolidate its position in the St Petersburg and North-Western regional markets. The newly launched Samson brand product range has perfectly complimented Cherkizovo's existing ranges.

■ Excluding VAT.

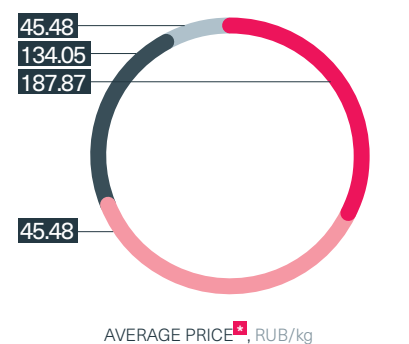
CORE PRODUCT TYPES



2019

Year-on-year, %

● Sausages	1
● Cuts	(21)
● Half-carcasses	32
● By-products	8



2019

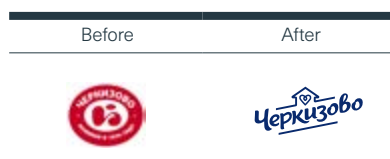
Year-on-year, %

● Sausages	2
● Cuts	3
● Half-carcasses	(9)
● By-products	(16)

The Cherkizovo brand revamp was one of the Company's key developments in 2019. While refreshing its brand image, the Group also took the time to make its labelling more informative, and its packaging more practical. At the core of the brand are two key product ranges: ready-to-cook and ready-to-eat. These ranges are enjoying a surge in popularity, placing them at the forefront of the Company's plans. Going forward, Cherkizovo Group will continue to expand and develop its product ranges

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

Production of meat and by-products increased by 12% to reach 138.0 thousand tonnes. At the same time, sales of cuts dropped by 21% to 31.8 thousand tonnes, while half-carcass sales grew by 32% to 93.0 thousand tonnes. By-product sales also witnessed an 8% increase, reaching 13.2 thousand tonnes.



For more details on Cherkizovo Group's rebranding program, please see: Product Strategy, **page 84**.

8

slaughter
and meat processing plants

246

thousand tonnes
Sales volume

163

RUB/kg
Average sales
price

40,7

RUB billion
Revenue

7%

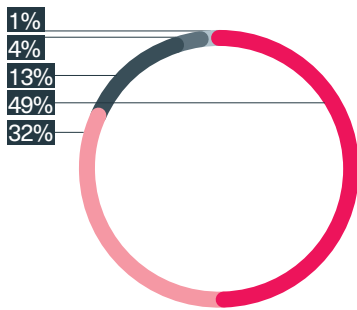
Sales growth

In 2019, the **productivity levels of the Dankov Meat Processing Plant greatly increased due to the measures to optimise its efficiency**. The average processing speed rose **by 20% to 240 heads per hour**, thus reducing downtime. Employee working conditions also improved after the introduction of a new staff incentive framework.

MEAT PROCESSING

SALES IN THE MEAT PROCESSING SEGMENT BY CHANNEL,

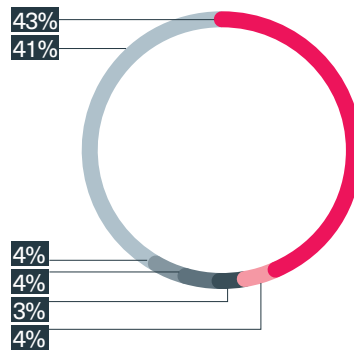
%



Channel	Percentage
Modern Trade	49
Wholesale Trade	32
Traditional Trade	13
Export	4
HoReCa	1

SALES IN THE MEAT PROCESSING SEGMENT BY BRAND,

%



Brand	Percentage
Cherkizovo	43
Myashnaya Gubernia	4
Imperiya Vkusa	3
Other	4
Private labels	4
Non-branded products	41

QUALITY ASSURANCE

All of Cherkizovo Group's meat processing assets are certified under the FSSC 22000 scheme, which regulates food safety standards. This confirms the Group's compliance with European standards in terms of production processes and employee training.

Cherkizovo Group maintains its high quality of products by conducting daily tasting panels, employee training, and audits of compliance with technological regulations, and controlling raw materials and packaging quality. What sets the Group apart is the availability of own-produced meat such as pork sourced from its own farms to guarantee the highest quality and freshness of ingredients.

EFFICIENCY IMPROVEMENT

In 2019, Cherkizovo Group remained committed to improving production efficiency and ensured all of its plants have a lean manufacturing system in place.

At a number of its production facilities, namely the Cherkizovsky Meat Processing Plant and the Dankov Meat Processing Plant, a Total Productive Maintenance system is in place, allowing the Company to dramatically reduce the downtime throughout the entire production chain, from slaughtering to product packaging.



In 2019, the productivity **levels of the Dankov Meat Processing Plant greatly increased due to the measures to optimise its efficiency.** The average processing speed rose by 20% to 240 heads per hour, thus reducing downtime. Employee working conditions also improved after the introduction of a new staff incentive framework.



For more details on Cherkizovo Group's quality management system, please see: Quality Management System, **page 84.**

1.3

RUB billion.

**Investments
in the segment*****KASHIRA PLANT**

The Kashira plant fully complies with the Industry 4.0 vision. Its high level of automation has significantly increased productivity and minimized the human factors, leading to an increase in the quality and biosafety of the products. The Company is able to guarantee such a high level of biosafety by carefully monitoring the quality of feedstock, either produced internally or sourced from third-party suppliers. The RFID system allows the Company to keep track of each and every stock unit, tracing the feedstock type, mass and temperature requirements.

In 2019, the Kashira plant was highly commended by the SAP Innovation Awards. This prestigious award is presented to projects that have achieved a remarkable technological breakthrough in their industry.



**To lead the market,
we have to make
delicious products.
We cannot
compromise
on taste.**

* Investments are shown net of VAT.

KEY INVESTMENT PROJECTS**Developing the capacity of the
Cherkizovsky Meat Processing
Plant**

In the reporting year, the Cherkizovsky Meat Processing Plant continued to implement projects aimed at boosting production output and increasing operational efficiency.

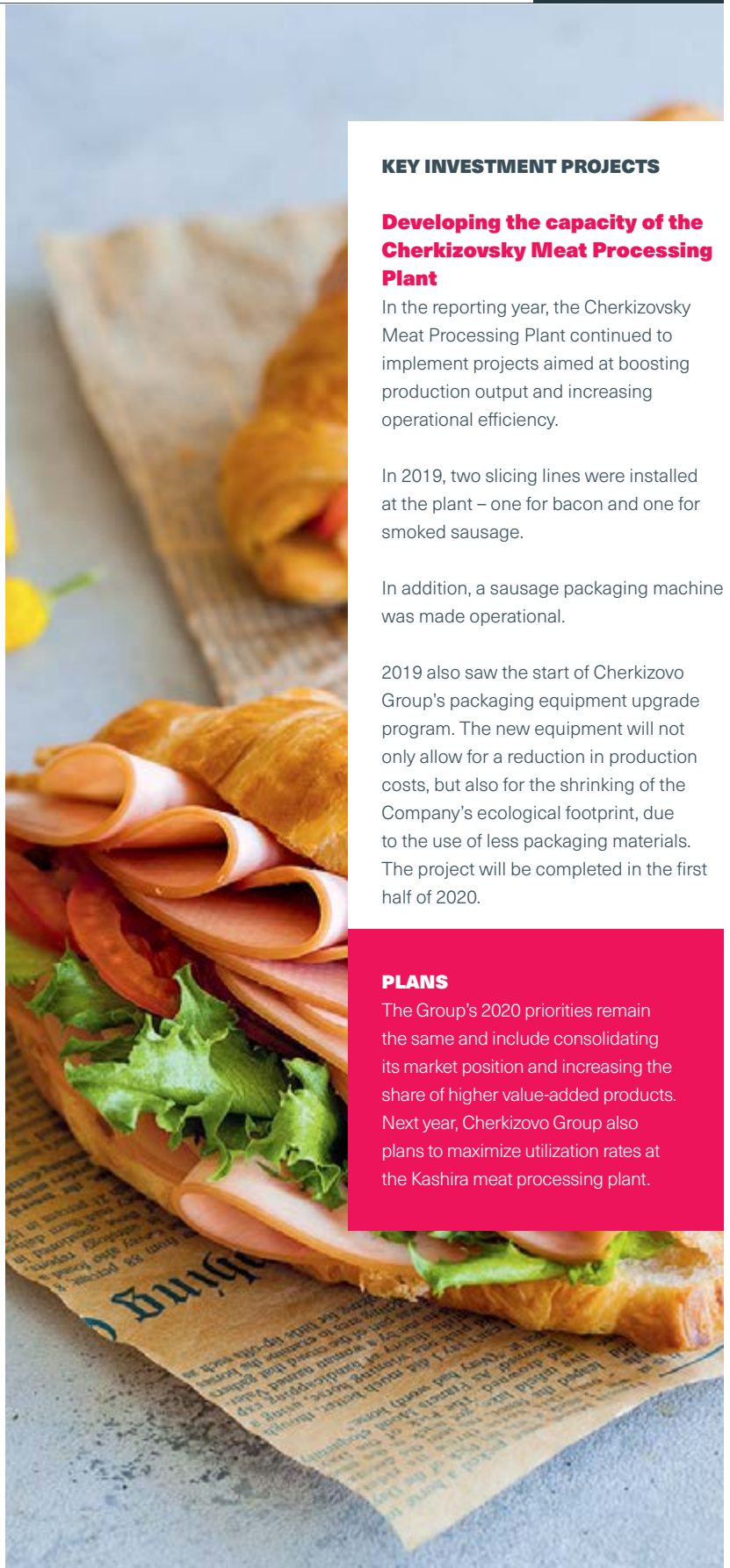
In 2019, two slicing lines were installed at the plant – one for bacon and one for smoked sausage.

In addition, a sausage packaging machine was made operational.

2019 also saw the start of Cherkizovo Group's packaging equipment upgrade program. The new equipment will not only allow for a reduction in production costs, but also for the shrinking of the Company's ecological footprint, due to the use of less packaging materials. The project will be completed in the first half of 2020.

PLANS

The Group's 2020 priorities remain the same and include consolidating its market position and increasing the share of higher value-added products. Next year, Cherkizovo Group also plans to maximize utilization rates at the Kashira meat processing plant.



GRAIN AND FEED

GRAIN

In 2019, Cherkizovo's Grain segment performed strongly, with the Group's land bank growing to 300 thousand hectares thanks to land purchases in the Lipetsk and Penza regions, and farmed land reaching 217 thousand hectares.

Gross yield added 24% to reach 593 thousand tonnes. Optimized crop rotation, higher yield levels, and a slight expansion of cultivated land resulted in increased harvests for most crops, especially wheat and corn.

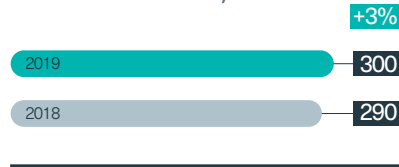
Sales were down by 25% to 524 thousand tonnes, while the average sales price rose by 11% to RUB 11.02 per kg. The increase was attributable to a bigger share of the high-margin sunflower in the sales mix and a surge in corn prices.

consumed internally by the Group's other segments, and soybean and sunflower accounting for the bulk of external sales as high-margin crops. In planning its annual sowing campaigns, the Group takes into account both feed demand and crop margins.

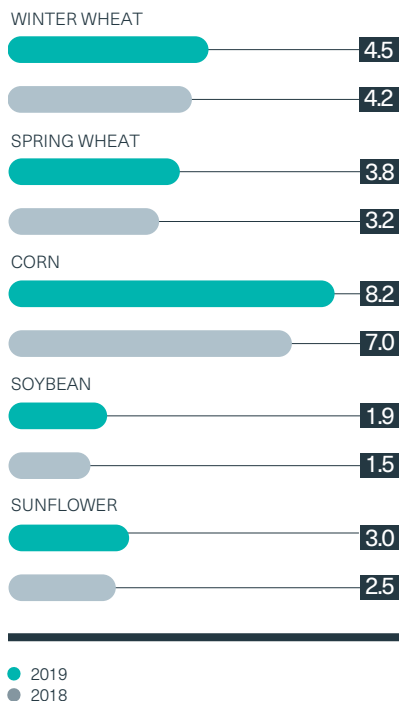
In 2019, we continued to expand production of all key crops, with crop areas for wheat, sunflower and soybean seeing the largest growth by 18%, 57% and 29%, respectively. At the same time, the Group stopped growing some of its non-core crops such as buckwheat, chickpea and lentil.

In crop cultivation, the Group leverages intensive farming technologies, organic and non-organic fertilizers, high-yielding heirloom and hybrid seeds.

TOTAL LAND BANK, '000 ha

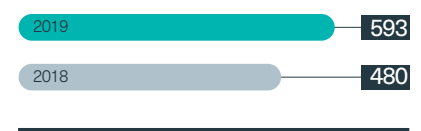


YIELD, t/ha



HARVEST VOLUMES,

thousand tonnes

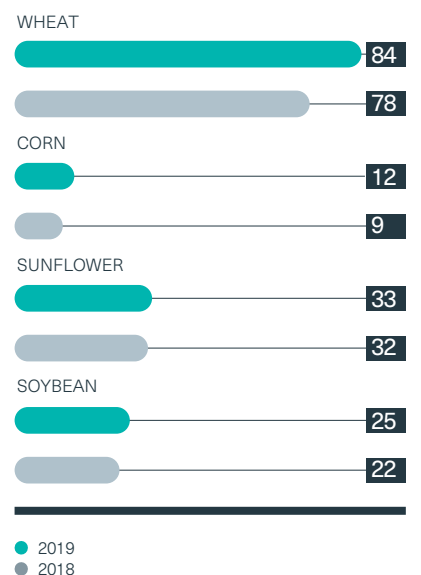


GRAIN ELEVATOR CAPACITY,

thousand tonnes



CROP AREA, '000 ha



8

Feed mill

217

thousand ha
Farmed land

24%

**Harvest volumes
growth**

593

th tonnes
The gross yield

11.02

per kg
The average sales price

Cherkizovo's **Poultry and Pork segments fully rely on feeds produced within the Group.** A third of our demand for animal feed – grains and oilseeds – is satisfied from our own harvests.

GRAIN AND FEED

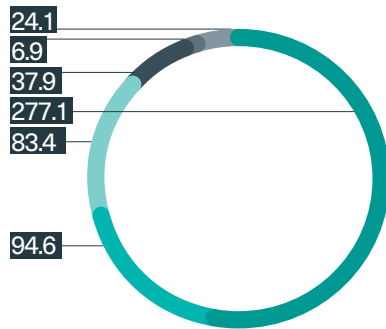
2.2

mln tonnes
feed production

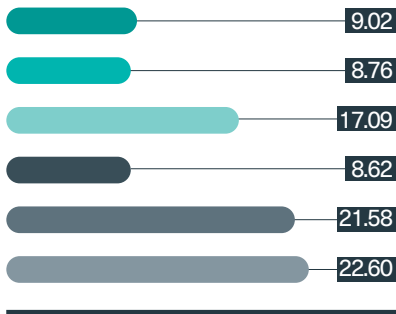
18%

grew feed production
in 2019

CROP SALES



SALES, thousand tonnes



AVERAGE SALES PRICE, RUB/kg

- Wheat
- Corn
- Sunflower
- Barley
- Soybean
- Other

OPERATIONAL PERFORMANCE

	2018	2019	19/18
Feed mills, pcs*	8	8	
Feed, thousand tonnes	1,830	2,152	18%

* Excluding mills of Tambov Turkey

In 2019, Cherkizovo Group continued to standardize processes across its Grain assets, completing the roll-out of standard operating procedures (SOPs) – a set of step-by-step instructions seeking to help employees carry out complex routine operations in the right way. SOPs are instrumental in securing sustainably high product quality and strong performance across all the Group’s assets. We also kept upgrading and expanding our fleet of agricultural machinery.

FEED

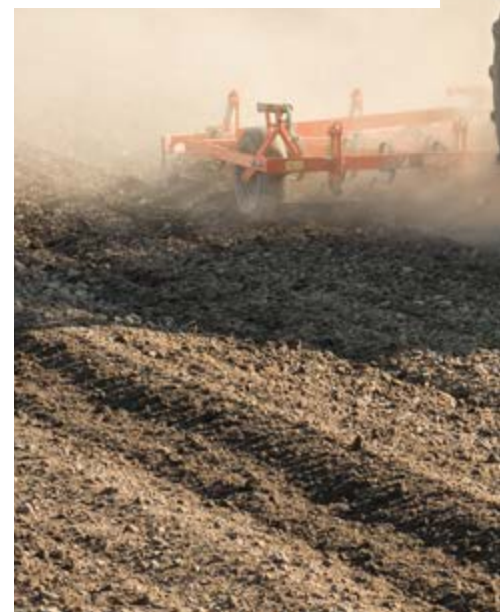
The Group’s feed production capacities ensure full self-sufficiency for the Poultry and Pork segments, with vertical integration facilitating cost control and helping us make high-quality biosafe products. We monitor feed quality at every stage, from growing crops to delivery to breeding farms.

The Feed segment is efficient in improving the feed quality and ensuring well-timed delivery to production sites in other segments. This helps keep our animals in good health and offer great products to our customers.



KEY INVESTMENT PROJECTS

Cherkizovo Group continued to further the project focused on making its own eco-friendly fertilizers and carried on with the investment project to revegetate and ameliorate lands, delivering on all of its plans and targets for 2019.





To boost yield levels, the Company relies on a combination of the following:

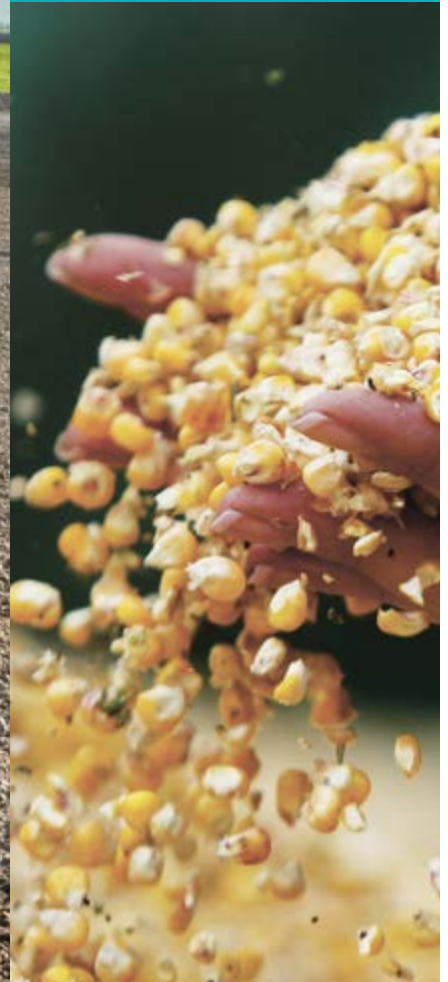
- using its own organic fertilizers,
- ensuring optimum soil density,
- amelioration,
- improving pH values for soil,
- precision planting.

1.8

RUB billion
**Investments
in the segment**

PLANS

In 2020, the Group plans to start building an oilseed processing plant in the Lipetsk Region. On top of that, this facility is expected to make oil. To supply it with feedstock, we are going to focus on soybean cultivation and increase the share of this crop in our mix.



TURKEY

2019 PERFORMANCE

Bln 2019, Cherkizovo Group continued to gain ground in the Turkey business jointly with Spain's Grupo Fuertes.

After reaching its design capacity in 2018, Tambov Turkey kept the pace, selling 39 thousand tonnes of products in the reporting year. The average sales price increased by 14% to RUB 169.23 per kg primarily due to lower supply following the shutdown of turkey operations by one of the Company's competitors. At the same time, demand from retailers and hence consumers remained strong.

Going forward, Cherkizovo plans to ramp up production capacities and increase output. In line with this vision, we already started implementing the second stage of Tambov Turkey in 2019.

The turkey meat products are sold under the Pava-Pava brand positioned as a premium offering made from high-quality meat with no artificial food additives. Moscow and St. Petersburg are the biggest contributors to the Pava-Pava sales. In 2019, the Group maintained leadership in these regions, having won 42.5% and 37.8% of the Moscow and St. Petersburg markets, respectively. This was driven by effective marketing and brand development.

With new production capacities to be launched going forward, the Company plans to gradually expand its sales geography in the Volga and Central Federal Districts.

SALES, thousand tonnes



REVENUE FROM SALES, RUB mln



OPERATIONAL PERFORMANCE

Indicator	2017	2018	2019	19/18
Meat yield from live weight, %	73.4	74.0	78.1	4.1
Feed conversion rate per kg of weight gain	2.44	2.47	2.52	2%
Growing period, days	112	116	118	2%
Average daily weight gain, g	122	124	115	-7%
Survival rate, %	92.2	91.8	91.03	-0.77 p.p.



In 2019, Cherkizovo Group ranked **second by the volumes of turkey produced** in Russia.

1

full cycle production
facility

39

thousand tonnes
Sales volume

169,2

per kg
Average sales price

6,7

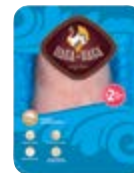
RUB billion
Revenue

31.3%

Revenue CAGR

HEALTHY FOOD

Turkey is a lean and hypoallergenic meat containing much less fat compared to alternatives and offering a wide variety of useful vitamins and minerals, and so enjoys increasingly strong demand in Russia and worldwide amid growing interest in healthy lifestyles. Pava-Pava products are made from the special extra lean Hybrid Grade Maker turkey grown in the Tambov Region, one of Russia's most pristine areas.



In 2019, the Pava-Pava brand won the **Product of the Year** award as the best Healthy Food product in the Turkey Meat category.

TURKEY

EXTENDING THE PRODUCT RANGE

The Pava-Pava product line offers a diverse range of products, including escalopes, thinly cut meat, medallions, steaks, ground meat, cutlets, sausages, kupati, and chilled cuts, as well as ready-to-cook products and packaged products for roasting.

For a while, products that do not require much cooking time have been gaining traction. In line with this trend, Tambov Turkey continued to expand the range of ready-to-cook turkey products. The four additions in 2019 were Chicken Kiev cutlets, wings for roasting, Bavarian turkey thighs, and turkey breast schnitzel for roasting. When developing new turkey offerings, the Company relies on traditional recipes for other types of meat and draws on the experience of other countries where turkey meat is highly popular.

SAFETY AND EFFICIENCY IMPROVEMENTS

Tambov Turkey's competitive advantages include full-cycle vertical integration helping us to keep a close eye on the quality of products across the production chain – from feed production and bird breeding to manufacturing.

Pava-Pava products comply with all applicable quality standards, both in Russia and globally, with Tambov Turkey holding ISO 22000:2005 and FSSC 22000 certificates for its food safety management system. A HACCP program along with a number of other initiatives are also in place to monitor bird health.

Compliance is achieved through the use of advanced production technologies, best-in-class European equipment, and providing the birds with the highest-quality feed and clean artesian water.



KEY INVESTMENT PROJECTS

Russia's turkey market has a bright outlook. Albeit rising significantly, per-capita turkey consumption in Russia currently amounts to roughly 2 kg – considerably lower than, for example, in the EU, where the number stands at 4–6 kg. It means that the Russian market is far from being saturated and will continue to grow.

In 2019, Cherkizovo Group started implementing the second stage of Tambov Turkey. The project will involve building one nursery and three finisher sites and ramping up the incubator, slaughtering and feed mill capacities by 50%. In 2019, the Company signed an agreement with the Tambov Region administration and started building two of the sites.

The new facilities are expected to be commissioned in March 2021. Once at full design capacity, Tambov Turkey will see its annual live-weight output rise by 29 thousand tonnes to over 80 thousand tonnes.





Tambov Turkey takes consistent steps to improve production efficiency. In 2019, it stayed focused on the following:

- ensuring product safety,
- further improving labor efficiency,
- enhancing profitability,
- Increasing products' shelf life

0.5

RUB billion
**Investments
in the segment**

PLANS

In 2020, our key development priority for the Turkey business will be implementing the second stage of Tambov Turkey (set to be commissioned in Q1 2021). Additional production capacities will strengthen the Company's foothold in the turkey market and support our mid-term expansion into new regions.

Cherkizovo Group will continue to further expand its turkey offering focusing on ready-to-cook and ready-to-eat options and the HoReCa segment, and will launch eight new products in 2020.



PRODUCT STRATEGY

Cherkizovo Group produces pork, chicken and turkey products that are suitable for all occasions – from snacks to festive meals.

Given the growing pace of life, we are actively developing our production of ready-to-cook and ready-to-eat products. For our customers, a healthy lifestyle is becoming increasingly important, so we are focusing on producing chicken and turkey products befitting of a healthy diet.

The high quality of our products is ensured by strict regulatory compliance control at all stages of production and the use of natural ingredients.

In 2019, we continued to develop our range of branded and high value-added products. Cherkizovo Group's strategic goal is to bring the share of these products in total sales to 80%.

BRAND DEVELOPMENT

The Group's marketing strategy is aimed at building megabrands, which will become clear leaders in their particular market segment. The Company is focused on developing the Cherkizovo, Petelinka and Pava-Pava brands, each of which already holds high positions in its respective market segment.

The Group takes an individual approach to promoting each of its brands. Marketing priorities are determined by the health of the brand – a complex measure that takes into account the level of brand recognition, brand visibility,

success of trial sales, regular purchase volume, and consumer loyalty. The Company monitors the performance of each brand and adapts its development strategy accordingly.

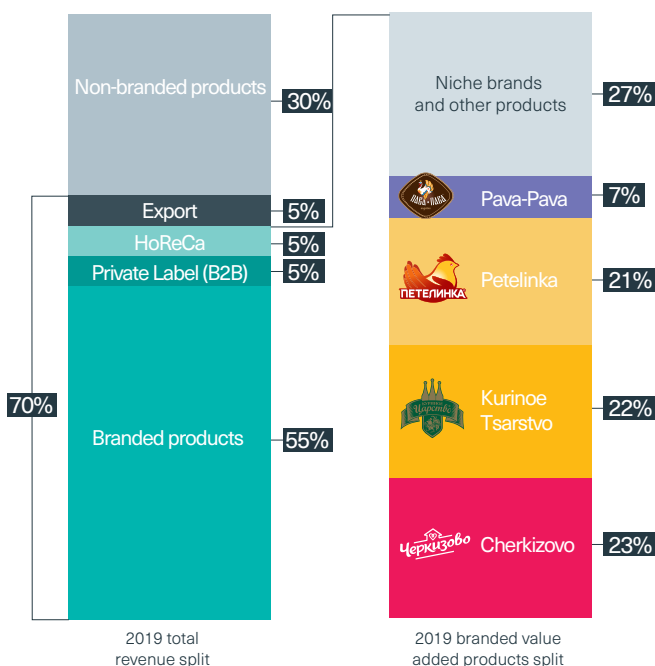
In 2019, the Group continued to develop its key brands, promoting them in particular via digital channels – bloggers, social media accounts and targeted advertising. The year's main achievement was the relaunch of the Cherkizovo brand.



Popular Instagram bloggers, including moms, pediatricians and celebrities, **published photos and videos on their pages with delicious and healthy Pava-Pava turkey and Petelinka chicken recipes.**

These publications were seen by several million users.

THE GROUP'S SALES BY TYPE, %



Cherkizovo Group's number one priority is the quality of its products.

We strive to be the very best for our customers and to do our utmost to fully take into account their taste preferences. To this end, we constantly improve our product range, develop new recipes in accordance with global and Russian trends and work to interact openly and honestly with our customers and partners.

MARKET SHARE OF THE GROUP'S KEY BRANDS, %

RUSSIAN MARKET

KURINOE TSARSTVO



PETELINKA



CHERKIZOVO BRAND SAUSAGES



MOSCOW AND ST. PETERSBURG MARKETS

PAVA-PAVA

MOSCOW



ST. PETERSBURG



CHERKIZOVO PORK

MOSCOW



ST. PETERSBURG



Source: Nielsen Holdings

REBRANDING OF CHERKIZOVO

In 2019, the Group conducted a major rebranding of its flagship brand, Cherkizovo. The changes affected not only the appearance of the product, but also its content – we improved the packaging, changed the logo and refined the recipes of our sausages and ready-to-cook pork products. The key message of the revamped brand was the constant care of customers and their families that Cherkizovo provides through its consistently high-quality products.

The Cherkizovo brand's new logo is the Heart at Home. The logo emphasizes that the quality and variety of our food brings people together and creates positive emotions that can accompany any meal.

Thanks to the rebranding, Cherkizovo's products have become more visible on shop shelves.



PRODUCT STRATEGY

In 2019, the R&D function contributed to the launch of 53 new products.

20

in the **Meat Processing** segment

33

in the **Fresh** segment

DEVELOPMENT OF NEW PRODUCTS

New products are developed by Cherkizovo Group's centralized R&D function[■] – the Department of Research and Development aligned with international standards.

The Group's R&D activities are aimed at ensuring the highest quality and excellent taste of all products. 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.

In order to effectively roll out R&D projects, we cooperate with research institutes and educational institutions, including the All-Russian Research and Development Institute of Poultry Processing Industry (VNIIPP), Gorbатов's All-Russian Meat Research Institute, Razumovsky Moscow State University of Technologies and Management, Moscow State University of Food Production and the Scientific Research Institute of Nutrition at the Russian Academy of Medical Sciences. The Group also works with international experts from Italy, Spain, Austria and the US.

[■] 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.

SALES

The Company continued to work on increasing the share of high value-added products in the total sales volume.

Cherkizovo aims to strengthen its position in markets where its products are already available and gradually expand its presence. The company supplies its products to virtually all regions of European Russia and is increasing its presence beyond the Urals. To expand its presence in these regions, the Group is developing partnerships with major retail chains. They increase the Group's product range and the number of stores selling its products.

In fall 2019, products from the Petelinka brand first became available to consumers in Russia's Siberian Federal District. All products of the brand supplied to shops in the region are manufactured at the Altaisky Broiler facilities, which became part of the Group in December 2018. Thanks to the geographical expansion and product range optimization, the brand's sales grew by 20% y-o-y.



Key R&D projects of 2019:

- The launch of a range of cooked sausages: the Russkaya, the Doktorskaya and the Molochnaya as part of the Po-Cherkizovski range.
- The expansion of the Cherkizovo Premium range with the launch of a line of European sausages (Capri, Verona, Milano and Fuet Extra) and sliced bacon.
- The development of a range of high value-added processed products (ground meat, cutlets, sausages, steaks) under the Petelinka, Pava-Pava and Cherkizovo brands.
- 20 projects related to recipe optimization, engineering, and packaging solutions.

SALES CHANNELS

The majority of Cherkizovo Group's products are sold through retail chains and the HoReCa segment, which primarily offer high value-added products. In 2019, the share of high value-added products reached 70% of Cherkizovo's sales portfolio. The Company is actively developing priority sales areas: HoReCa and exports. At the end of the year, export sales grew by 78%, while restaurant-related sales doubled.

In the HoReCa segment, the Group is focused on supplying fast food restaurants and working with such chains as Burger King, Pizza Hut and KFC. Close cooperation with these major brands confirms and further guarantees the high quality of our products.

THE GROUP'S SALES BY CHANNEL, %

Channels	RUB share in 2018	RUB share in 2019
Total sales	RUB 95.7 billion	RUB 115.1 billion
Federal retailers	56%	51%
Traditional retail	16%	12%
Wholesale	22%	28%
HoReCa	3%	5%
Export	3%	5%

SALES STRUCTURE, %

Channels	Share in 2018, %	Share in 2019, %
Total sales	RUB 95.7 billion	RUB 115.1 billion
Branded	56%	55%
Private label (B2B)	6%	5%
HoReCa	3%	5%
Export	3%	5%
Non-branded products	31%	30%

SALES BY BRAND, %

Brand	Share in 2018, %	Share in 2019, %
Branded sales	RUB 60.1 billion	RUB 74.6 billion
Cherkizovo	27%	23%
Kurinoe Tsarstvo	26%	22%
Petelinka	23%	21%
Pava-Pava	6%	7%
Niche brands and other products	18%	27%

PRODUCT STRATEGY

RELATIONSHIPS WITH CUSTOMERS AND PARTNERS

Cherkizovo Group is committed to meeting the needs and requirements of its customers by offering them the highest quality products in convenient packaging. For this purpose, the Company is building a mutually beneficial and transparent relationship with both end consumers and business partners – large retailers and fast food chains that purchase our products.

Even at the product development stage, the Company conducts tests with the involvement of customers and industry professionals, including leading restaurateurs and nutritionists. Their opinions are taken into account when determining the recipe of the final product. The Group also conducts market research and surveys, analyses feedback on social networks and as a result implements necessary improvements at any stage of production and delivery. Key positions and new products are tested across all segments.

The Group is committed to further bolstering interaction with customers using digital channels, including our corporate and brand-specific websites, mobile applications and social media pages. Each of the Group's key brands has a system in place to respond quickly to consumer requests. Customers can ask a question or submit a complaint via our hotline or write to Cherkizovo on social networks with the confidence that their request will not be ignored.

64

million people
total brand Petelinka coverage in digital communication channels in 2019





PETELINKA DIGITAL

In 2019, one of the Group's brands, Petelinka had a total brand coverage in digital communication channels of 64 million people.

The brand has accounts on all popular social networking sites where it publishes news and recipes. The total number of subscribers during the year exceeded 114,000 people and the coverage on social networks exceeded 14 million people. In December 2019, Petelinka ran a promotional campaign featuring well-known Instagram bloggers, who acted as brand ambassadors in their posts and spoke about how they trust our products.

The Company's website www.petelinka.ru is extremely popular and features not only information and news about the Company, but also over 890 recipes that use chicken. In 2019, 3.2 million users visited the site.

Since 2017, Petelinka has been running a loyalty program encouraging customers to register promotional codes from packaging on its website or in a mobile app. Throughout the year, about 1.5 million promo codes were registered in the loyalty program and the number of participants amounted to approximately 330,000 people.



FINANCIAL PERFORMANCE OVERVIEW



Ludmila Mikhaylova

CFO

120.1

RUB billion

Cherkizovo Group's
consolidated revenue

In 2019, Cherkizovo's the company operated in a stable macroeconomic environment, with growing demands from our consumers and retail. Our **vertically integrated business model demonstrated its competitiveness and resilience**: superb performance of the chicken segment boosted by a number of strategic acquisitions in the late 2018, and buoyed by steady growth in the grain business were key drivers of our results during 2019. Price weakness in the pork market adversely impacted profits in the pork and meat processing segments.

KEY FINANCIAL INDICATORS IN 2018-2019

	2018	2019
Revenue, RUB bln	100.4	120.1
Gross profit, RUB bln	29.2	27.9
Gross margin	29.1%	23.2%
Adjusted EBITDA, RUB bln	20.4	20.6
Adjusted EBITDA margin	20.3%	17.2%
Net profit, RUB bln	12.0	6.8
Net profit margin	12.0%	5.6%
Net cash flow from operating activities, RUB bln	14.2	16.1
Net debt, RUB bln	58.6	61.2
Net debt / Adjusted EBITDA	2.9x	3.0x

20.6

RUB billion

Cherkizovo Group's
adjusted EBITDA

In 2019, Cherkizovo Group's consolidated revenue increased by 19.6% year-on-year to RUB 120.1 billion, with adjusted EBITDA up by 1.0% to RUB 20.6 billion and adjusted EBITDA margin decreased to 17.2% (up from 20.3% in 2018). Net profit nearly halved to RUB 6.8 billion as compared to RUB 12.0 billion in 2018, while operating cash flow increased by 13.2% to RUB 16.1 billion (RUB 14.2 billion in 2018).

Net debt came in at RUB 61.2 billion (2018: RUB 58.6 billion), with our results providing us sufficient comfort on all debt covenants.

In 2019, total capital expenditures amounted to RUB 8.6 billion, with the major part attributable to the pork (RUB 2.8 billion) and poultry (RUB 1.9 billion) segments. The remaining CAPEX was distributed among other businesses.

OPERATIONAL PERFORMANCE OVERVIEW

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

Cherkizovo Group encompasses eight meat processing plants (including meat processing plant operated by an equity associate Samson – Food Products), thirteen pork production complexes, twenty one wean-to-finish facilities and two saw farms, nine poultry production complexes (including the Belaya Ptitsa production complex which is currently operate pursuant to a lease agreement), nine combined fodder production plants and more than 300,000 hectares of agricultural land.

The Group also includes Tambov Turkey facility, a joint Russian-Spanish venture. In 2019, Cherkizovo Group produced c. 1 mn tonnes of meat and meat products and generated revenue of RUB 120.1 billion.

In 2019, Cherkizovo Group's sales totaled 663.0 thousand tonnes of finished products in the poultry segment, 245.6 thousand tonnes in the Meat Processing segment, 274.6 thousand tonnes in the Pork segment. The Company harvested 593.0 thousand tonnes of various crops in the Grain segment, and produced some 2.2 million tonnes of feed to cater for its own needs.

FINANCIAL PERFORMANCE OVERVIEW

MARKET AND REGULATORY OVERVIEW

FX exchange rates

In 2019, the Russian rouble appreciated against both EUR and USD. According to the Central Bank of Russia, as at 31 December 2019, the USD/RUB and EUR/RUB pairs traded at 61.91 and 69.34, respectively (2018: 69.47 and 79.46). 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, with the exception of the produce that we sell to the exports markets. 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 2019, the Central Bank of Russia delivered multiple rate cuts, lowering the key rate from 7.75% at the end of 2018 to 6.25% at the end of 2019. It allowed the company to successfully refinance its debt portfolio and extend its maturity – in November 2019, we placed local bonds in the amount of 10 bn roubles with 7.5% coupon and 3.5 tenor.

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 2019, our overall effective tax rate was 0.7%, compared to 1.6% tax benefit in 2018. An increase compared to 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 1.1 billion RUB.

CONSOLIDATED RESULTS OF CHERKIZOVO GROUP

In 2019, revenue increased by 19.6% y-o-y to RUB 120.1 billion (2018: RUB 100.4 billion). Revenue growth is attributed to higher volumes across business segments on the back of organic growth and M&A, favourable pricing environment for poultry products, and offset by negative dynamics in pork prices domestically.

Gross profit declined by 4.5% y-o-y to RUB 27.9 billion (2018: RUB 29.2 billion). Revenue growth was offset by the negative net change in fair value of biological assets, and lower effect from net revaluation of harvested crops in stock. Gross profit margin declined to 23.2% (2018: 29.1%).

Operating expenses increased by 29.3% y-o-y to RUB 17.6 billion, from RUB 13.6 billion a year ago. Operating expenses as a percentage of sales increased to 14.6% (2018: 13.5%).

Adjusted operating profit of RUB 12.4 billion, declined by 8.2% y-o-y from RUB 13.5 billion a year ago. Our adjusted operating profit excludes non-recurring impairment loss recognized for non-operational items of property, plant and equipment in the amount of RUB 530 million (2018: nil), net change in fair value of biological assets of the Group's segments in the amount of RUB 1.4 billion (2018: RUB 1.8 billion) and the effect of net change in fair value of biological assets of JVs and associates on the Group's share of their results in the amount of RUB 298 million negative (2018: RUB 210 million).

Adjusted EBITDA of RUB 20.6 billion, in line with previous year results. Adjusted EBITDA margin declined to 17.2% (2018: 20.3%) driven by softer pricing in the pork segment, marginal decline in profitability in meat processing, and offset by better results in the chicken business.

Net interest expense in 2019 increased by 37.3% y-o-y to RUB 4.5 billion.

Net profit for the Group totaled RUB 6.8 billion in 2019, down 43.8% compared to RUB 12.0 billion in 2018. Net profit margin declined to 5.6% from 12.0% a year ago.

Adjusted net profit declined by 10.0% y-o-y to RUB 9.0 billion, from RUB 10.0 billion a year ago. Adjusted net profit margin amounted to 7.5%, compared to 9.9% in 2018.

9.0

RUB billion

Adjusted net profit
for the Group totaled

FINANCIAL PERFORMANCE OVERVIEW

CONSOLIDATED INCOME STATEMENT DATA FOR THE YEAR ENDED 31 DECEMBER 2019

RUB mln	12 months ended 31 December 2019	12 months ended 31 December 2018	Change
Sales	120,109	100,422	19.6%
incl. Sales volume discounts	(1,779)	(1,473)	20.8%
incl. Sales returns	(1,010)	(1,091)	(7.4%)
Net change in fair value of biological assets	(1,379)	1,836	n.a.
Net revaluation of harvested crops in stock	29	2,242	(98.7%)
Cost of sales	(90,896)	(75,318)	20.7%
Gross profit	27,863	29,182	(4.5%)
<i>Gross margin</i>	<i>23.2%</i>	<i>29.1%</i>	<i>(5.9 p.p.)</i>
Operating expenses	(17,551)	(13,570)	29.3%
Share of loss of joint ventures and associates	(123)	(57)	115.8%
Operating profit	10,189	15,555	(34.5%)
<i>Operating margin</i>	<i>8.5%</i>	<i>15.5%</i>	<i>(7.0 p.p.)</i>
Profit before income tax	6,697	11,793	(43.2%)
Profit attributable to Cherkizovo Group	6,751	12,004	(43.8%)
<i>Net profit margin</i>	<i>5.6%</i>	<i>12.0%</i>	<i>(6.4 p.p.)</i>
Weighted average number of shares outstanding	41,047,014	41,047,014	—
Earnings per share			
Profit attributable to Cherkizovo Group per share – basic and diluted (RUB)	164.46	292.45	(43.8%)

CONSOLIDATED INCOME STATEMENT DATA FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

RUB mln	12 months ended 31 December 2019	12 months ended 31 December 2018	Change
Consolidated Adjusted EBITDA reconciliation			
Profit before income tax	6,697	11,793	(43.2%)
Add:			
Interest expense, net of subsidies	4,484	3,267	37.3%
Interest income	(243)	(290)	(16.2%)
Foreign exchange (gain)/loss, net	(676)	829	n.a.
Depreciation and amortisation	7,818	6,045	29.3%
Net change in fair value of biological assets	1,379	(1,836)	n.a.
Share of loss of joint ventures and associates	123	57	115.8%
Share of adjusted EBITDA of joint ventures and associates	736	165	346.1%
Bonuses to employees under long-term incentive program	205	658	(68.8%)
Depreciation and amortisation accumulated in harvested crops in stock	94	(273)	n.a.
Consolidated Adjusted EBITDA	20,617	20,415	1.0%
<i>Adjusted EBITDA Margin</i>	<i>17.2%</i>	<i>20.3%</i>	<i>(3.1 p.p.)</i>

FINANCIAL PERFORMANCE OVERVIEW

CONSOLIDATED SELECTED FINANCIAL DATA FOR THE YEAR ENDED 31 DECEMBER 2019

RUB mln	Meat-Processing	Poultry	Pork	Grain	Feed
Total Sales	40,056	70,332	24,478	5,758	40,321
including sales volume discount	(872)	(773)	—	—	—
Interdivision Sales	(31)	(1,820)	(20,948)	(3,545)	(40,311)
Sales to external customers (Sales)	40,025	68,512	3,530	2,213	10
<i>% of Total sales</i>	<i>33.3%</i>	<i>57.0%</i>	<i>2.9%</i>	<i>1.8%</i>	<i>0.0%</i>
Net change in fair value of biological assets	—	(135)	(1,244)	—	—
Net revaluation of harvested crops in stock	—	—	—	155	—
Cost of Sales	(37,035)	(53,281)	(17,588)	(4,128)	(39,945)
Gross profit/(loss)	3,021	16,916	5,646	1,785	376
<i>Gross margin</i>	<i>7.5%</i>	<i>24.1%</i>	<i>23.1%</i>	<i>31.0%</i>	<i>0.9%</i>
Operating expenses	(5,033)	(7,581)	(440)	(274)	(173)
Share of gain/(loss) of joint ventures and associates	(23)	15	—	—	—
Operating income/(loss)	(2,035)	9,350	5,206	1,511	203
<i>Operating margin</i>	<i>-5.1%</i>	<i>13.3%</i>	<i>21.3%</i>	<i>26.2%</i>	<i>0.5%</i>
Interest income	17	246	32	1	73
Interest expense, net	(158)	(1,504)	(1,025)	(132)	(727)
Other income/ (expenses), net	485	(30)	18	22	313
Division profit / (loss) before income tax	(1,691)	8,062	4,231	1,402	(138)
<i>Division profit margin</i>	<i>-4.2%</i>	<i>11.5%</i>	<i>17.3%</i>	<i>24.3%</i>	<i>-0.3%</i>
Supplemental information:					
Income tax expense (benefit)	(36)	22	(1)	15	40
Segment's capital expenditure	1,337	1,859	2,798	1,109	719

Total reportable segments	Corporate	Intersegment and other adjustments	Total without Turkey	Turkey	Combined
180,945	—	(67,552)	113,393	6,716	120,109
(1,645)	—	—	(1,645)	(134)	(1,779)
(66,655)	—	66,801	146	(146)	—
114,290	—	(751)	113,539	6,570	120,109
95.2%	0.0%	-0.6%	94.5%	5.5%	100.0%
(1,379)	—	—	(1,379)	—	(1,379)
155	—	(126)	29	—	29
(151,977)	—	67,090	(84,887)	(6,009)	(90,896)
27,744	—	(588)	27,156	707	27,863
15.3%	0.0%	0.9%	23.9%	10.5%	23.2%
(13,501)	(3,990)	653	(16,838)	(713)	(17,551)
(8)	—	—	(8)	(115)	(123)
14,235	(3,990)	65	10,310	(121)	10,189
7.9%	-	-0.1%	9.1%	-1.8%	8.5%
369	242	(368)	243	—	243
(3,546)	(1,306)	368	(4,484)	—	(4,484)
808	(59)	—	749	—	749
11,866	(5,113)	65	6,818	(121)	6,697
6.6%	—	-0.1%	6.0%	-1.8%	5.6%
40	6	—	46	—	46
7,822	730	—	8,552	—	8,552

FINANCIAL PERFORMANCE OVERVIEW

CONSOLIDATED SELECTED FINANCIAL DATA FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

RUB mln	Meat Processing	Poultry	Pork	Grain	Feed
Division profit / (loss) before income tax	(1,691)	8,062	4,231	1,402	(138)
Add:					
Interest expense, net	158	1,504	1,025	132	727
Interest income	(17)	(246)	(32)	(1)	(73)
Foreign exchange loss/(gain)	(441)	41	(14)	(10)	(311)
Depreciation and amortisation expense	1,245	2,847	1,870	510	725
Net change in fair value of biological assets	—	135	1,244	—	—
Share of (gain)/loss of joint ventures and associates	23	(15)	—	—	—
Share of adjusted EBITDA of joint ventures and associates	104	193	—	—	—
Bonuses to employees under long-term incentive program	11	41	40	3	7
Depreciation and amortisation accumulated in harvested crops in stock	—	—	—	94	—
Adjusted EBITDA	(608)	12,562	8,364	2,130	937
<i>Adjusted EBITDA Margin</i>	<i>-1.5%</i>	<i>17.9%</i>	<i>34.2%</i>	<i>37.0%</i>	<i>2.3%</i>

Total reportable segments	Corporate	Intersegment and other adjustments	Total without Turkey	Turkey	Combined
11,866	(5,113)	65	6,818	(121)	6,697
3,546	1,306	(368)	4,484	—	4,484
(369)	(242)	368	(243)	—	(243)
(735)	59	—	W	—	(676)
7,197	618	—	7,815	3	7,818
1,379	—	—	1,379	—	1,379
8	—	—	8	115	123
297	—	—	297	439	736
102	103	—	205	—	205
94	—	—	94	—	94
23,385	(3,269)	65	20,181	437	20,617
12.9%	—	-0.1%	17.8%	6.5%	17.2%

FINANCIAL PERFORMANCE OVERVIEW



POULTRY

Sales volumes in 2019 increased by 22% to 663.0 thousand tonnes (2018: 544.2 thousand tonnes). The average selling price increased by 9% y-o-y to 106.0 RUB/kg. We successfully integrated several companies that we had acquired at the end of 2018, and which significantly contributed to the growth of the volumes in 2019. Our sales from Petelinka branded products, the focus brand of the segment, added 13%, while exports and foodservice were the fastest-growing channels, adding 131% and 95% respectively. As a result, the segment's revenue increased by 33.4% and amounted to RUB 70.3 billion (2018: RUB 52.7 billion).

Net change in fair value of biological assets was negative RUB 135 million, compared to positive RUB 1.3 billion in 2018.

Gross profit was up by 32.3% y-o-y and totaled RUB 16.9 billion, (2018: RUB 12.8 billion) driven by volumes growth, sales channel diversification and better pricing. Gross margin declined to 24.1%, from 24.2% in 2018.

Operating expenses as a percentage of sales increased to 10.8% compared to 10.2% a year ago. Operating income increased by 26.3% y-o-y to RUB 9.4 billion (2018: RUB 7.4 billion). Operating margin declined to 13.3% from 14.0% in 2018.

The segment's profit before income tax amounted to RUB 8.1 billion (2018: RUB 6.9 billion).

Adjusted EBITDA of RUB 12.6 billion, increased by 49.8% y-o-y, while Adjusted EBITDA margin increased to 17.9% from 15.9% a year ago.

70.3

RUB billion
Segment's revenue

12.6

RUB billion
Segment's adjusted EBITDA

RUB mln	12 months ended 31 December 2019	12 months ended 31 December 2018	Change, %
Total Sales	70,332	52,723	33.4%
Interdivision sales	(1,820)	(1,594)	14.2%
Sales to external customers	68,512	51,129	34.0%
Net change in fair value of biological assets	(135)	1,264	n.a.
Cost of sales	(53,281)	(41,205)	29.3%
Gross profit/(loss)	16,916	12,782	32.3%
<i>Gross margin</i>	<i>24.1%</i>	<i>24.2%</i>	<i>(0.1 p.p.)</i>
Operating expenses	(7,581)	(5,379)	40.9%
Share of gain/(loss) of joint ventures	15	—	n.a.
Operating profit/(loss)	9,350	7,403	26.3%
<i>Operating margin</i>	<i>13.3%</i>	<i>14.0%</i>	<i>(0.7 p.p.)</i>
Interest income	246	172	43.0%
Interest expense, net	(1,504)	(621)	142.2%
Other income/(expenses), net	(30)	(53)	(43.4%)
Division profit/(loss) before income tax	8,062	6,901	16.8%
<i>Division profit margin</i>	<i>11.5%</i>	<i>13.1%</i>	<i>(1.6 p.p.)</i>
Poultry division Adjusted EBITDA reconciliation			
Division profit/(loss) before income tax	8,062	6,901	16.8%
Add:			
Interest expense, net of subsidies	1,504	621	142.2%
Interest income	(246)	(172)	43.0%
Foreign exchange (gain)/loss, net	41	74	(44.6%)
Depreciation and amortisation	2,847	2,055	38.5%
Net change in fair value of biological assets	135	(1,264)	n.a.
Share of (gain)/loss of joint ventures	(15)	—	n.a.
Share of adjusted EBITDA of joint ventures	193	—	n.a.
Bonuses to employees under long-term incentive program	41	172	(76.2%)
Poultry division Adjusted EBITDA	12,562	8,387	49.8%
<i>Adjusted EBITDA Margin</i>	<i>17.9%</i>	<i>15.9%</i>	<i>2 p.p.</i>

FINANCIAL PERFORMANCE OVERVIEW



PORK

Sales volumes in 2019 increased by 16% y-o-y, to 274.6 thousand tonnes (2018: 236.9 thousand tonnes), as wean-to-finish facilities launched in 2019 boosted our production. The average selling price of 89.1 RUB/kg, declined by 9% y-o-y compared to 98.2 RUB/kg a year ago, as pork prices were under pressure from the supply push of domestic producers. The segment's revenue increased by 5.2% y-o-y to RUB 24.5 billion (2018: RUB 23.3 billion).

Net change in fair value of biological assets was negative RUB 1.2 billion, compared to positive RUB 0.9 billion a year ago.

Gross profit of RUB 5.6 billion declined by 46.7% compared to RUB 10.6 billion in 2018, on softer price environment and 11.1% cost inflation in per kg pork production. The segment's gross margin declined to 23.1%, from 45.5% a year ago.

Operating income amounted to RUB 5.2 billion (2018: RUB 10.4 billion). The segment's operating margin declined to 21.3% from 44.8% a year ago.

The segment's profit before income tax declined by 57.2% y-o-y to RUB 4.2 billion (2018: RUB 9.9 billion).

Adjusted EBITDA compressed by 23.3% y-o-y to RUB 8.4 billion (2018: RUB 10.9 billion). Adjusted EBITDA margin declined to 34.2% from 46.9% in 2018.

24.5

RUB billion

Segment's revenue

8.4

RUB billion

Segment's adjusted EBITDA

RUB mln	12 months ended 31 December 2019	12 months ended 31 December 2018	Change, %
Total Sales	24,478	23,262	5.2%
Interdivision sales	(20,948)	(20,238)	3.5%
Sales to external customers	3,530	3,024	16.7%
Net change in fair value of biological assets	(1,244)	899	n.a.
Cost of sales	(17,588)	(13,567)	29.6%
Gross profit/(loss)	5,646	10,594	(46.7%)
<i>Gross margin</i>	<i>23.1%</i>	<i>45.5%</i>	<i>(22.4 p.p.)</i>
Operating expenses	(440)	(179)	145.8%
Operating profit/(loss)	5,206	10,415	(50.0%)
<i>Operating margin</i>	<i>21.3%</i>	<i>44.8%</i>	<i>(23.5 p.p.)</i>
Interest income	32	64	(50.0%)
Interest expense, net	(1,025)	(588)	74.3%
Other income/(expenses), net	18	(3)	n.a.
Division profit/(loss) before income tax	4,231	9,888	(57.2%)
<i>Division profit margin</i>	<i>17.3%</i>	<i>42.5%</i>	<i>(25.2 p.p.)</i>
Pork division Adjusted EBITDA reconciliation			
Division profit/(loss) before income tax	4,231	9,888	(57.2%)
Add:			
Interest expense, net of subsidies	1,025	588	74.3%
Interest income	(32)	(64)	(50.0%)
Foreign exchange (gain)/loss, net	(14)	10	n.a.
Depreciation and amortisation	1,870	1,339	39.7%
Net change in fair value of biological assets	1,244	(899)	n.a.
Bonuses to employees under long-term incentive program	40	40	0.0%
Pork division Adjusted EBITDA	8,364	10,902	(23.3%)
<i>Adjusted EBITDA Margin</i>	<i>34.2%</i>	<i>46.9%</i>	<i>(12.7 p.p.)</i>

FINANCIAL PERFORMANCE OVERVIEW



MEAT PROCESSING

Sales volumes in 2019 increased by 7% y-o-y to 245.6 thousand tonnes (2018: 229.5 thousand tonnes), as higher volumes of pork production led to higher pork carcass sales, while sausages volumes were stable. The average selling price declined by 4.0% y-o-y to 163.0 RUB/kg (2018: 169.6 RUB/kg), as price increase in sausages was offset by negative dynamics in pork carcass sales. As a result the segment's revenue increased by 3.3% and reached RUB 40.1 billion (2018: RUB 38.8 billion).

Gross profit declined by 12.2% y-o-y to RUB 3.0 billion, (2018: RUB 3.4 billion). The gross margin fell to 7.5% from 8.9% a year ago.

Operating expenses increased by 28.5% y-o-y, and amounted to 12.6% as a percentage of sales, compare with 10.1% in 2018.

Operating loss amounted to RUB 2.0 billion compared to RUB 0.5 billion loss in 2018.

The segment's loss before income tax was RUB 1.7 billion, compared to a loss of RUB 1.1 billion a year ago.

Adjusted EBITDA turned to negative RUB 0.6 billion from RUB 0.5 billion in 2018 as we invested in the prices of the value-added products to support our sales.

40.1

RUB billion
Segment's revenue

(0.6)

RUB billion
Segment's adjusted EBITDA

RUB mln	12 months ended 31 December 2019	12 months ended 31 December 2018	Change, %
Total Sales	40,056	38,780	3.3%
Interdivision sales	(31)	(1,027)	(97.0%)
Sales to external customers	40,025	37,753	6.0%
Cost of sales	(37,035)	(35,341)	4.8%
Gross profit/(loss)	3,021	3,439	(12.2%)
<i>Gross margin</i>	7.5%	8.9%	(1.4 p.p.)
Operating expenses	(5,033)	(3,916)	28.5%
Share of gain/(loss) of associates	(23)	—	n.a.
Operating profit/(loss)	(2,035)	(477)	326.6%
<i>Operating margin</i>	-5.1%	-1.2%	(3.9 p.p.)
Interest income	17	20	(15.0%)
Interest expense, net	(158)	(122)	29.5%
Other income/(expenses), net	485	(472)	n.a.
Division profit/(loss) before income tax	(1,691)	(1,051)	60.9%
<i>Division profit margin</i>	-4.2%	-2.7%	(1.5 p.p.)
Meat processing division Adjusted EBITDA reconciliation			
Division profit/(loss) before income tax	(1,691)	(1,051)	60.9%
Add:			
Interest expense, net of subsidies	158	122	29.5%
Interest income	(17)	(20)	(15.0%)
Foreign exchange (gain)/loss, net	(441)	485	n.a.
Depreciation and amortisation	1,245	883	41.0%
Share of (gain)/loss of associates	23	—	
Share of adjusted EBITDA of associates	104	—	
Bonuses to employees under long-term incentive program	11	39	(71.8%)
Meat processing division Adjusted EBITDA*	(608)	458	n.a.
<i>Adjusted EBITDA Margin</i>	-1.5%	1.2%	(2.7 p.p.)

FINANCIAL PERFORMANCE OVERVIEW



GRAIN

Sales volumes in 2019 declined by 25% y-o-y to 524.0 thousand tonnes (2018: 696.1 thousand tonnes), while overall harvest in the season increased by 24% y-o-y to 593.0 thousand tonnes (2018: 479.7 thousand tonnes) driven by better results of wheat and corn cultivation. The segment's revenue declined by 16.5% and reached RUB 5.8 billion (2018: RUB 6.9 billion).

Net revaluation of harvested crops in stock declined to RUB 155 million from RUB 1.3 billion in 2018.

Gross profit declined by 7.2% to RUB 1.8 billion (2018: RUB 1.9 billion). Gross margin increased to 31.0% from 27.9% a year ago.

Operating expenses as a percentage of sales increased to 12.4% from 6.9% a year ago.

Operating income declined to RUB 1.5 billion from RUB 1.7 billion in 2018, with operating margin of 26.2% compared to 24.9% in 2018.

The segment's profit before income tax was RUB 1.4 billion, compared to RUB 1.5 billion a year ago.

Adjusted EBITDA amounted to RUB 2.1 billion compared RUB 2.3 billion in 2018.

5.8

RUB billion
Segment's revenue

2.1

RUB billion
Segment's adjusted EBITDA

763

RUB million
Consolidated EBITDA
of the Group from all JVs



Results of joint ventures and associates

The Group's significant joint ventures and associates include: 50% share in Tambov Turkey, a turkey producer established by the Company and its partner and shareholder Grupo Corporativo Fuertes, 75% share in Samson – Food products, a meat processor in St-Petersburg, and 50% share in Cobb-Russia.

Total result in consolidated EBITDA of the Group from all JVs and associates amounted to RUB 736 million, up from RUB 165 million a year ago.

RUB mln	12 months ended 31 December 2019	12 months ended 31 December 2018	Change, %
Total Sales	5,758	6,899	(16.5%)
Interdivision sales	(3,545)	(3,945)	(10.1%)
Sales to external customers	2,213	2,954	(25.1%)
Net change in fair value of biological assets	—	—	—
Net revaluation of harvested crops in stock	155	1,297	(88.0%)
Cost of sales	(4,128)	(6,273)	(34.2%)
Gross profit/(loss)	1,785	1,923	(7.2%)
<i>Gross margin</i>	<i>31.0%</i>	<i>27.9%</i>	<i>3.1 p.p.</i>
Operating expenses	(274)	(205)	33.7%
Operating profit/(loss)	1,511	1,718	(12.0%)
<i>Operating margin</i>	<i>26.2%</i>	<i>24.9%</i>	<i>1.3 p.p.</i>
Interest income	1	2	(50.0%)
Interest expense, net	(132)	(173)	(23.7%)
Other income/(expenses), net	22	1	2100.0%
Division profit/(loss) before income tax	1,402	1,548	(9.4%)
<i>Division profit margin</i>	<i>24.3%</i>	<i>22.4%</i>	<i>1.9 p.p.</i>
Grain division Adjusted EBITDA reconciliation			
Division profit/(loss) before income tax	1,402	1,548	(9.4%)
Add:			
Interest expense, net of subsidiaries	132	173	(23.7%)
Interest income	(1)	(2)	(50%)
Foreign exchange (gain)/loss, net	(10)	—	n.a.
Depreciation and amortisation	510	809	(37.0%)
Net change in fair value of biological assets	—	—	—
Depreciation and amortisation accumulated in harvested crops in stock	94	(273)	n.a.
Bonuses to employees under long-term incentive program	3	8	(62.5%)
Grain division Adjusted EBITDA	2,130	2,263	(5.9%)
<i>Adjusted EBITDA Margin</i>	<i>37.0%</i>	<i>32.8%</i>	<i>4.2 p.p.</i>

FINANCIAL PERFORMANCE OVERVIEW

LIQUIDITY AND CAPITAL

Capital needs

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

- capital expenditures, particularly in connection with development and maintenance capital expenditures;
- repayment of debt; and
- 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.

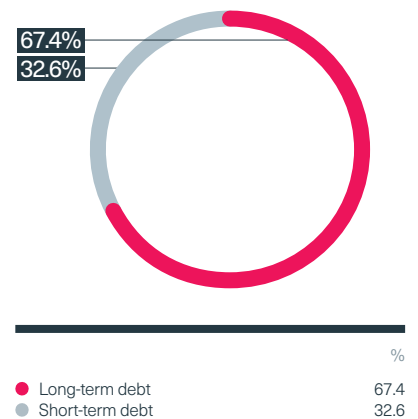
In 2019, the major sources of our funds were our operating cash flows and short and long-term borrowings. We financed our capital expenditures primarily with short and long-term borrowings.

Debt

As at 31 December 2019, net debt came in at RUB 61.2 billion as compared to RUB 58.6 billion at the end of 2018. Total debt decreased from RUB 68.8 billion at the end of 2018 to RUB 65.2 billion.

As at 31 December 2019, long-term debt stood at RUB 43.9 billion, or 67.4% of the Group's debt portfolio, while short-term debt accounted for 32.6% of the debt portfolio. The effective cost of debt was 6.9% as of 31 December 2019, change from 4.7% in 2018. Subsidised loans and credit facilities made up 27% of the debt portfolio in 2018 (2018: 40%). As at 31 December 2019, cash and cash equivalents totaled RUB 3.3 billion.

TOTAL DEBT STRUCTURE, RUB bln



CAPITAL EXPENDITURES

In 2019 Cherkizovo Group's total capital expenditures, excluding acquisitions and investments in joint ventures and associates amounted to RUB 8.6 billion (down 12% year-on-year) and included:

- RUB 1.3 billion invested in the Meat Processing segment (significant investments were made in the modernization of meat processing facilities: slicing and packing bacon, the production of sausages in a tray, sliced smoked sausage; the Group also made significant investments in the reconstruction of treatment facilities at the slaughter plants);
- RUB 2.8 billion invested in the Pork segment (construction of four new wean-to-finish facilities in the Penza region);
- RUB 1.9 billion invested in the Poultry segment (the investments made in strategically significant project on a slaughter line cooling system and completed a number of projects aimed at the production of high value-added products);
- RUB 1.1 billion invested in the Grain segment (construction of a new grain drying facility).

SUBSIDIES

In 2019, total government grants for compensation of interest expenses grossed of related interest expense stay at the same level and amounted to RUB 1.3.

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 31 December 2019 and 31 December 2018, respectively:

	2019	2018
Net cash flows from operating activities	16.1	14.2
Net cash used in investing activities	(11.0)	(15.3)
Net cash (used in) / generated from financing activities	(11.4)	10.1
Net (decrease)/ increase in cash and cash equivalents	(6.3)	8.9

FINANCIAL PERFORMANCE OVERVIEW

Operating activities

Net cash from operating activities in 2019 increased by 13,3% to RUB 16.1 billion from RUB 14.2 billion in 2018.

In 2019, the Company showed an outflow of working capital in the amount of RUB 0.6 billion. In 2018, the inflow of working capital amounted to RUB 0,9 billion.

- RUB 1.1 billion increase in current 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;
- RUB 0.5 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;
- RUB 1.2 billion increase in trade payables due to the increase in deferred payments under contracts;

Investing activities

Use of cash in investing activities decreased to RUB 11.0 billion from RUB 15.3 billion in 2018. In 2018 the Group completed the acquisition of 100% of JSC "Altaisky Broiler" for cash consideration of RUB 4.6 billion and acquisition of all tangible assets, including poultry parent stock, of four hatching eggs' production facilities of CJSC "Krasnoyarskiy Broiler" (Belgorod region) at the amount of RUB 1.8 billion.

In 2019, the only acquisition was 100% of CJSC "Rovenskiy Broiler" for cash consideration of RUB 1.7 billion.

Financing activities

Our net cash flows used in financing activities amounted to RUB 11.4 billion in 2019 compared to net cash from financing activities in 2018 in the amount of RUB 10.1 billion. The change in 2019 was due to repayment of the short-term loans.

16.1

RUB billion

Net cash from operating increased

Liquidity

As of 31 December 2019, we had total cash and cash equivalents of RUB 3.3 billion, which were denominated largely in Roubles. As of 31 December 2019, we had Net Current Assets of RUB 3.9 billion (2018: 6.3 billion).

Our Trade Working Capital as of 31 December 2019, which we define as current assets less current liabilities excluding short-term loans and current portion of long-term loans, was RUB 25.1 billion as compared to RUB 30.5 billion as of 31 December 2018.

In 2019 our trade receivables, net slightly decreased by 4.5% and amounted to RUB 5.5 billion from RUB 5.7 billion as of 31 December 2018. Trade receivables turnover averaged 17 days as of 31 December 2019 and 19 days as of 31 December 2018. Allowance for doubtful

trade receivables was RUB 183 million and RUB 119 million as of 31 December 2019, 2018, respectively, due to the additional information received regarding insolvency of some of the buyers.

Trade payables increased to RUB 11.6 billion as of 31 December 2019 from RUB 10.8 billion as of 31 December 2018 primarily due to the growth of business purchases. Trade payables turnover averaged 45 days, 48 days as of 31 December 2019, 2018, respectively.

Our inventory consists primarily of raw materials, spare parts, work-in-progress and finished goods. Our inventories were RUB 13.2 million, RUB 12.4 as of 31 December 2019, 2018, respectively. The increase in inventories in 2019 was largely due to the increase in wheat and soybean stock.

Current biological assets amounted to RUB 16.3 billion as of 31 December 2019 and RUB 15.4 billion as of 31 December 2018. The increase was largely due to increase in the number of livestock as a result of the commissioning of new production facilities and improvement of key performance indicators.

Other receivables, net, decreased to RUB 0.2 billion as of 31 December 2019 from RUB 1.5 billion as of 31 December 2018. The decrease in other receivables in 2019 was largely due to due to receiving subsidies of the previous periods.

Ludmila Mikhaylova

CFO

SUSTAINABLE DEVELOPMENT

Cherkizovo Group monitors and takes society's expectations into account in decision-making. The Company promotes an effective dialogue with a broad range of stakeholders. Our stakeholders include investors and shareholders, consumers,

customers, employees, suppliers and partners, agricultural industry players, local and federal authorities, trade associations, non-profit organizations, and local communities in all regions where we operate.

Cherkizovo Group takes an active part in developing the industry and liaises with its community. The Company is a member of the National Meat Association, National Union of Swine Breeders, National Union of Meat Processors, and National Union of Poultry Farmers established in 2019.



Suppliers and business partners

- transparent business practices, including transparency of tenders;
- selection of partners who meet the Group's high standards and requirements.



Customers (retail, HoReCa, exports)

- timely supplies of high-quality products;
- joint projects;
- transparent business practices.



Government agencies

- compliance with applicable laws;
- timely payment of taxes;
- cooperation in investment projects and social programs.



Investors and shareholders

- full and timely disclosure of all required information;
- approved dividend policy;
- maintaining an ongoing dialogue in a variety of formats (meetings, participation in conferences, publications).



Agricultural sector

- introduction of innovative technologies;
- application and development of humane animal treatment practices;
- compliance with biosafety standards;
- amelioration.



Local communities

- creation of jobs;
- sponsoring charities;
- funding educational, healthcare, and cultural facilities;
- mitigation of negative environmental impact.

As a major Russian food producer, **Cherkizovo Group has a considerable impact on the regions where it operates.** In our operations, we are committed to the **concept 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 advocate responsible land use, animal management, and food production.

Last year, Cherkizovo represented by CEO Sergey Mikhailov joined a working group participating in the regulatory guillotine project for animal and crop farming. The regulatory guillotine is a mechanism designed by the Russian Government to eliminate outdated regulations, some of which date back to the USSR.



Employees

- competitive salaries and social benefits;
- workplace safety;
- training and educational programs.



Consumers

- product quality excellence and quality control;
- addressing consumer complaints in a timely manner and taking immediate action;
- refining product portfolio and production technology in line with current trends such as healthy lifestyles and environmental protection.

RSPP

In 2019, Cherkizovo joined the Russian Union of Industrialists and Entrepreneurs (RSPP), an association that brings together players from the country's key economic sectors. As part of the union, the Group plans to participate in the activities of the Commission on the Agricultural Complex and contribute to developing the industry's consolidated position on matters such as improving access to government support for agriculture, and maximizing the export potential of Russian animal products.



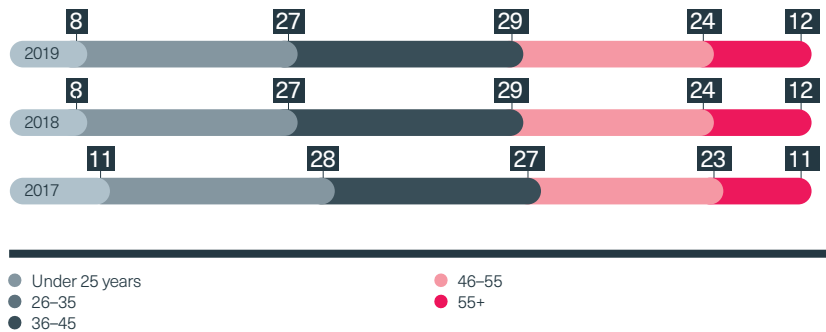
OUR EMPLOYEES

HR POLICY

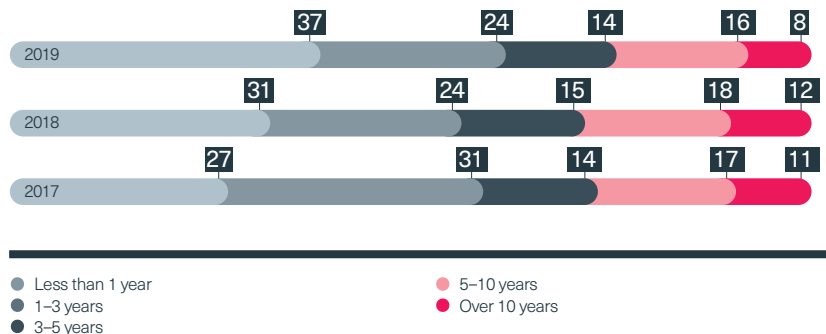
Highly skilled employees are essential for an efficient business. Cherkizovo Group seeks to develop human capital: we source the best professionals in the industry, run training programs and promote self-development. The Company complies with applicable Russian laws, monitors and employs international best practices in human resources management.

Cherkizovo Group is among the largest employers in the Russian agricultural sector: at the end of 2019, we employed over 30,000 people, up 19% year-on-year. The increase was driven by the ramp-up of the Group's operations: we acquired new poultry assets and launched new nursery and finisher sites in the Penza Region.

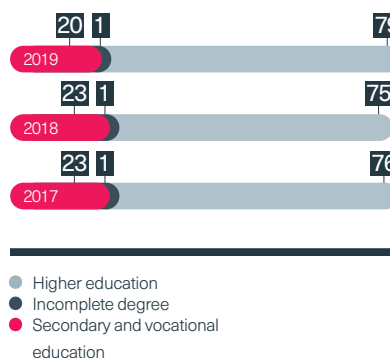
EMPLOYEE AGE, %



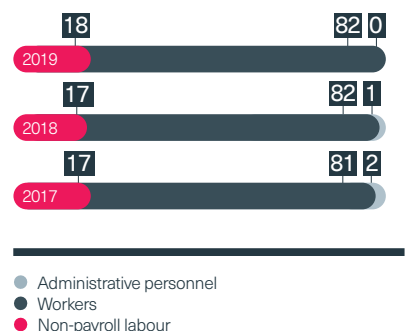
YEARS OF EMPLOYMENT WITH THE COMPANY, %



EMPLOYEE EDUCATION, %



EMPLOYEES BY TYPE OF EMPLOYMENT AND NON-PAYROLL STAFF, %



30

thousand employees
Cherkizovo Group's headcount



In 2019, we continued to develop our human capital.

Our key HR initiatives included:

- “Evolution@Cherkizovo. Leaders of Change” program;
- Training and development program for beginning managers;
- Distance learning system for workers and management in the workplace;
- Dual education programs implemented as part of the Youth project to attract and train young professionals;
- Strategic sessions to support management teams.

INDUCTION AND MENTORING

Cherkizovo seeks to make the onboarding exercise for new hires quick and easy: it holds dedicated events, trainings, and mentoring sessions.

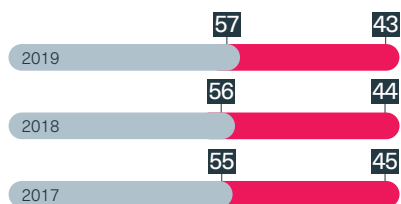
Employees who have recently joined us go on a virtual tour of the Group’s facilities, a special interactive online course designed to introduce them to production processes. This online program also introduces them to Cherkizovo Lab’s operations and food safety at production facilities.

Cherkizovo is developing a mentoring system where mentors, skilled and seasoned employees, train new hires in professional skills and give them feedback. This helps newcomers to adapt to the Company’s processes more quickly and boosts productivity.

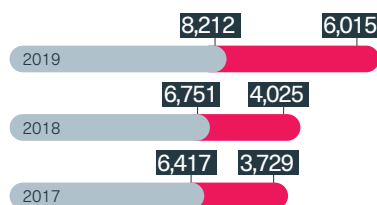
A dedicated cross-cultural induction program helps foreign professionals employed by Cherkizovo Group to learn more about the Russian agricultural industry, production processes and corporate culture of the Company.

PERSONNEL AND NEW HIRES BY GENDER

EMPLOYEE HEADCOUNT BY GENDER, %



NEW HIRES, PERSONS



● Male
● Female

RECRUITMENT

Cherkizovo Group is hiring across the segments, where it operates, as well as in IT, sales, innovation and R&D. When the Company decides to hire an employee, it relies exclusively on the person’s professional skills and never discriminates on the grounds of gender, age, nationality or any other factor.

We strive to contribute to the economic growth of local communities and hire people from the regions where we operate. Among other things, we cooperate with local authorities and employment centers.

OUR EMPLOYEES

116

young specialists were accepted into the Company in 2019, 79 mentors took part in their training

TRAINING AND DEVELOPMENT

Training employees and unlocking their potential are key to staff professionalism and loyalty, and therefore to the Company's success. Cherkizovo Group organizes educational events, provides an opportunity to take part in industry conferences, and overseas internships.

Our training programs cover all employee categories. We pay particular attention to biosafety and occupational safety, increasing productivity and improving performance at work.

The Company runs Evolution@Cherkizovo. Leaders of Change, an 2-year integral leadership program. Participants implement personal and team projects, where they learn to apply new approaches and to look at challenges in a different way.

We conduct annual employee competency assessments, based on which individual development plans are designed. In 2019, 80% of the Company's managerial staff had development plans based on personalized career paths.

One of the technologies used by Cherkizovo Group to train employees is e-learning. Our employees access training courses through Cherkizovo WORLD learning and development portal, a dedicated corporate platform. Webinars are also held by our employees, who tell colleagues about our internal processes and initiatives.

We provide a wide range of opportunities for development. The Company hosts Days of Learning and Development twice a year, with open workshops and master classes in many fields. Cherkizovo has a corporate online library available to all employees. We encourage our employees to learn foreign languages with English language classes and English club sessions offered at some of the Group's facilities to practise foreign language skills.

YOUTH PROGRAMS

Our priorities in human resource management include ensuring a continuous supply of young talent, building an effective succession system, and raising the profile of the agricultural sector among young people. To this end, the Group runs Youth, a major staffing program, while our HR Department operates a young specialist engagement center. In 2019, 116 young specialists were accepted into the Company, 79 mentors took part in their training.

The Group aims to become a Top 3 employer for agricultural graduates. For this purpose, we build up cooperation with leading educational institutions, participate in job fairs and similar events to tell students and recent graduates about career and professional growth opportunities at the Group, hold career guidance meetings and presentations at universities, and open days.

Cooperation with educational institutions

Cherkizovo Group partners directly with major agricultural universities, such as Razumovsky Moscow State University of Technologies and Management, Russian State Agrarian University – Moscow Timiryazev Agricultural Academy, Voronezh State Agricultural University, Penza State Agricultural University, teams up with Moscow State University, Bauman Moscow State Technical University, Higher School of Economics, and Plekhanov Russian University of Economics. This business-academia collaboration results in dedicated internship programs and induction plans for young talent.

At the heart of the project is the dual education program enabling students to obtain hands-on production experience in addition to academic training. This way, they have an opportunity to address real business challenges. Dual education programs are introduced for second and third year students. They are implemented at 10 sites in Moscow, and across the Moscow, Kaliningrad, Lipetsk, and Penza regions, with a total of 102 students participating.

Young graduates who have completed the dual education program do not need additional time for onboarding. Many of the program participants remain our employees. It helps maintain an inflow of young talent and increases the percentage of students whose employment matches their professional training.

119

students have participated in Cherkizovo Group's dual education program since 2017

The initiative also covers upskilling and reskilling programs, competitions, and contests, as well as work on student graduation projects based on the Company's objectives.

As part of its career guidance initiative, Cherkizovo held 32 events at universities, vocational and secondary schools, involving 3,500 people. The main activities included:

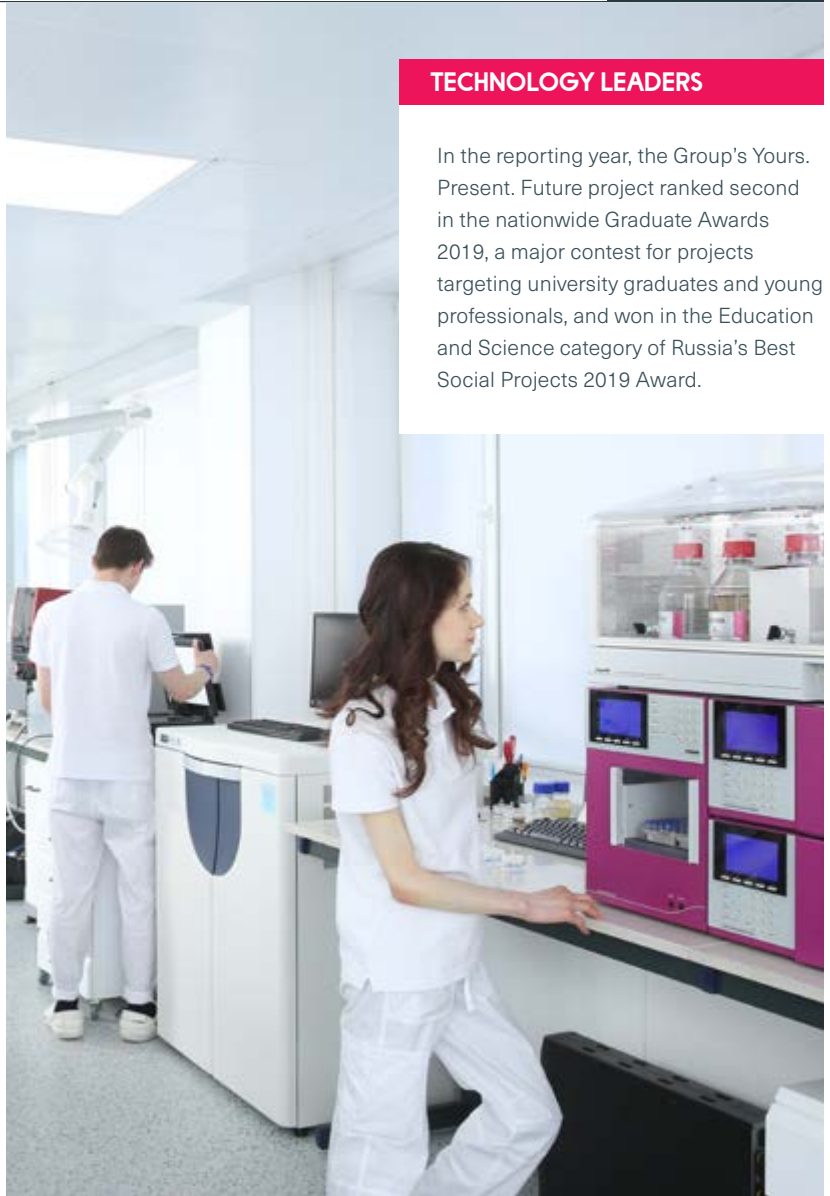
- The Company days;
- The University Saturdays, university-based workshops held once a year to induce school students to choose a career in agriculture;
- The Choose Your Path meetings held twice a year at vocational schools to interest school students in agricultural careers;
- Tours around Cherkizovo Lab and the automated plant in Kashira for university and school students.

In 2019, the Company's Center for Student Programs and Youth Initiatives implemented the following projects:

- The launch of four new Meat Technology training programs at a specialized university;
- Development and launch of new training programs covering Process and Production Automation, Meat Technology, automation, and HACCP at a specialized university;
- The launch of a series of lectures by Cherkizovo experts for Meat Technology and HR Management training programs;

TECHNOLOGY LEADERS

In the reporting year, the Group's Yours. Present. Future project ranked second in the nationwide Graduate Awards 2019, a major contest for projects targeting university graduates and young professionals, and won in the Education and Science category of Russia's Best Social Projects 2019 Award.



- Discover Cherkizovo event for interns attended by the Company's top management;
- The launch of Cherkizovo Vocational School project in Kashira;
- The launch of the Technology Leaders project by the Company's Research and Development Department;
- The launch of the Cherkizovo Champions project, with seven university graduates participating;
- Marketing project defence by Moscow State University students; seven projects were presented and as a result twelve students were awarded internships.

In the reporting year, the Group's Yours. Present. Future project ranked second in the nationwide Graduate Awards 2019, a major contest for projects targeting university graduates and young professionals, and won in the Education and Science category of Russia's Best Social Projects 2019 Award.

OUR EMPLOYEES

683

RUB million

Cherkizovo Group's spending on social programs and benefits, +249%

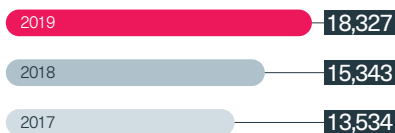
COMPENSATION AND BENEFITS

Well-being of employees is the Company's top priority that has a direct impact on its long-term development. This is why we provide competitive salaries to our staff in line with the social and economic environment in the regions where we operate. Salary is commensurate with the employee's position, qualification, and performance.

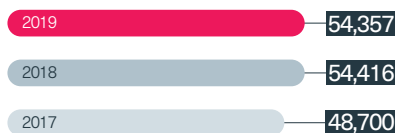
The remuneration often includes a variable part (bonus). Its amount depends on the nature of the job and achievement of performance indicators the position has impact on. Managers receive annual bonuses based on the achievement of corporate and individual targets for the year. Uniform criteria for the establishment and assessment of annual targets provide a transparent and clear mechanism to calculate the annual bonus.

EMPLOYEE REMUNERATION IN 2017-2019

PAYROLL, INCLUDING BONUSES AND REMUNERATION, RUB MILLION



AVERAGE MONTHLY SALARY, RUB*



In 2019, the payroll, including bonuses and remuneration, increased by 19% to RUB 18.3 billion, while the average monthly salary was RUB 54,357. Excluding the medium-term bonus program, the average salary increased by 3.2% to RUB 53,749 in 2019 from RUB 52,082 in 2018.

SOCIAL BENEFITS

We offer not only a decent salary, but also social security and an environment for personal and professional growth.

On top of the social benefits mandated by the Russian laws and regulations, the Group provides corporate perks and incentives, and creates a comfortable environment for work and leisure. Our fringe benefits include paid holiday allowance, vouchers to health resorts and summer camps for employees and their families, financial assistance in emergencies. Most of our assets have corporate cafeteria, and health centers for employees.

In 2019, Cherkizovo Group's spending on social programs and benefits soared by 249% to RUB 683.9 million.

CORPORATE CULTURE

Employee engagement and loyalty have a direct impact on the Company's business performance. That is why we promote our corporate culture, create a friendly working atmosphere, and develop various feedback channels for our employees.

The Group's corporate portal features Thank You, a non-financial recognition program, where employees can publicly 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 3 of them are awarded by the Group. The Thank You program boosts staff engagement in the form of a game and creates a friendly working environment.

Cherkizovo Group sites regularly host professional skills contests, where the year's best performers receive special awards.

The Group seeks to maintain a dialogue between the management team and employees. In March 2019, we held our first Town Hall, a video conferencing session where our employees had an opportunity to ask the CEO a question in person.

HEALTH, SAFETY AND THE ENVIRONMENT

Industrial safety and environmental protection are top priorities at Cherkizovo Group.

We seek to completely eliminate work-related injuries, lead the industry in health and safety performance, and minimize our environmental footprint.



Our approach to occupational safety includes:

- workplace safety;
- systematic risk identification and management;
- sound occupational health and safety management system;
- effective hazard information system;
- robust employee training in OHS requirements and standards;
- strict employee compliance with existing OHS requirements.

OCCUPATIONAL HEALTH AND SAFETY

We are well aware that the health and safety of our people are key to the Company's strategic plan and sustainable development in the long run. We strictly comply with all statutory health and safety requirements, and make sure that our safety procedures are in line with the best international practices.

In 2019, Cherkizovo adopted the Occupational Health and Safety Policy to set out our long-term goals for improving performance in this sphere.

Cherkizovo Group has joined the Vision Zero campaign sponsored by the International Social Security Association (ISSA) with a relevant certificate issued to the Company at the Russian Health and Safety Week in Sochi in 2019.

We implement numerous initiatives aimed at preventing accidents and incidents, reducing injuries, improving workplace safety, and promoting employee well-being.

We invest continuously in enhancing our occupational safety procedures to safeguard the health of our employees. In particular, we place major emphasis on upgrading equipment and increasingly automating production processes to reduce human-related risk factors in health and safety.

The Group provides training for employees to increase their awareness and involvement in OHS matters. In 2019, the Company trained an equivalent of 2,071 employees in occupational health and safety and organised 75 workshops on corporate safety standards.

To further promote personnel engagement, we have set up a Occupational Safety for employees to communicate their ideas on improving occupational health and safety.

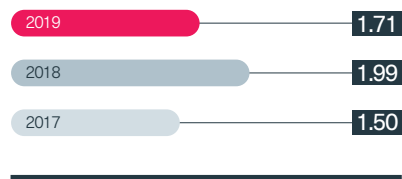
We employ a number of key indicators, including the lost time injury frequency rate (LTIFR), to assess occupational safety performance at Cherkizovo.

HEALTH, SAFETY AND THE ENVIRONMENT



No fatalities, no major group accidents in 2019

LOST TIME INJURY FREQUENCY RATE (LTIFR)

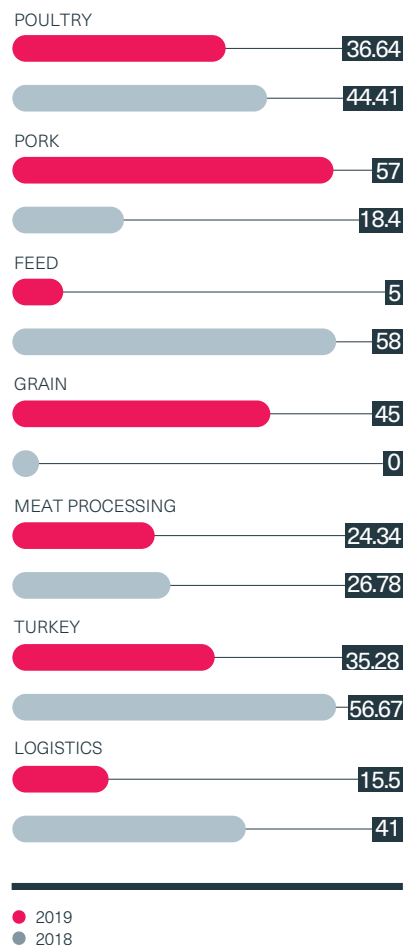


In 2019, LTIFR was down by 14% year-on-year. Most injuries were caused by falls (28% of all accidents), stab wounds (16%), and road accidents during the transportation of employees by third-party providers (12%).

The reporting year saw no fatalities or major group accidents across the Company's facilities.

We thoroughly investigate all accidents to identify and localize their causes and prevent recurrence in the future. In 2019, we acted promptly to tighten safety requirements for employee transportation to curb the rise in traffic accidents involving third-party providers.

SEVERITY RATE^{*}



● 2019
● 2018

^{*} SR = D/A, where D stands for the number of days lost due to workplace injury in the reporting period, while A stands for the number of accidents in the reporting period.

Key occupational health and safety projects in 2019:

- Rolling out of the occupational risk mitigation system, where all production processes are examined in stages to identify potential risks for each stage and assess them on a special scale. Major risks are promptly tackled, while remedial measures are developed for less likely risks. Through this practice, we identified over 2,000 risk mitigation activities to be conducted in 2020.
- Online tests to examine knowledge of the ten most important OHS issues by the managerial staff. Managers failing the tests are required to undergo special training and retake the tests.
- Implementation of the minor injury investigation program to register all visits to first aid rooms, uses of first aid kits and sick leave notes. This initiative helps to better understand the causes of occupational accidents and tackle them proactively. In 2019, we revealed and investigated 426 minor injuries across the Group's facilities.
- Equipment assessment in buildings and structures at the Company's production sites with repairs and replacement carried out when necessary.
- Safety awareness campaigns with emphasis on prevention education and visual impact methods.

484.6

RUB million
**of occupational health
 and safety expenses
 across the Group**
 +70% year-on-year

OCCUPATIONAL HEALTH AND SAFETY EXPENSES, RUB '000

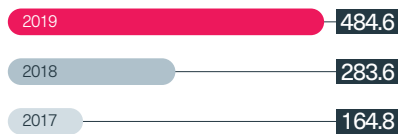
EXPENSES FOR OCCUPATIONAL HEALTH AND SAFETY ACTIVITIES PER EMPLOYEE, RUB '000



EXPENSES FOR OCCUPATIONAL HEALTH AND SAFETY TRAINING OF PERSONNEL, RUB MILLION



OCCUPATIONAL HEALTH AND SAFETY EXPENSES, RUB '000

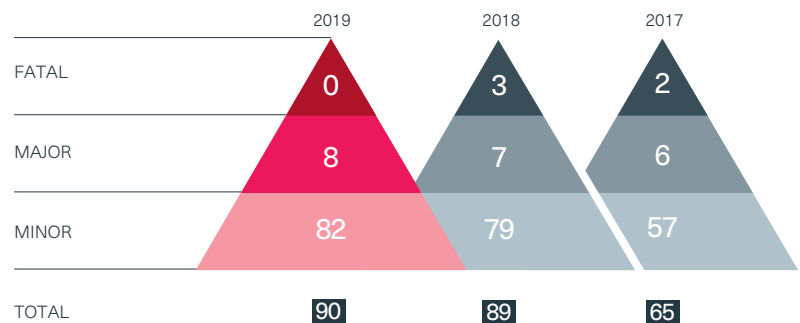


In 2019, Cherkizovo Group became a partner of the Russian Health and Safety Week, displaying the Company's OHS practices at the event.

In 2020, we will work persistently to cultivate the occupation safety culture.



NUMBER OF INJURIES IN 2017-2019



HEALTH, SAFETY AND THE ENVIRONMENT



Environmental safety and sustainable use of natural resources is a major priority for the Company.

In implementing its environmental initiatives, Cherkizovo Group strictly complies with regulatory requirements and the best industry practices.

ENVIRONMENTAL PROTECTION

We invest in the most advanced technology and management systems to minimize the Company's environmental footprint, pay great attention to the efficient use of natural resources, and support a broad range of environmental projects.

All of our production facilities are equipped to monitor wastewater discharge, air pollution and energy consumption. Through constant environmental monitoring and analysis at our production sites we are able to prevent accidents and take prompt action to redress any potential problems.

The Company closely cooperates on environmental matters with government agencies, business partners, NGO experts, and broad industry community.

Last year saw the start of our partnership with the World Wide Fund for Nature

512.4

RUB million.

Investment in environmental protection projects

(WWF). On 30 March 2019, Cherkizovo Group for the first time took part in the Earth Hour, an annual international environmental campaign to switch off the lights for one hour to signal our commitment to saving the planet.

The Group was also an official partner of the event to celebrate 25 years of WWF work in Russia. Guests at the event were able to enjoy a wide selection of Cherkizovo products. The Company also sponsored a win-win charity lottery with all proceeds used to support rare species preservation projects in Russia.

Cherkizovo Group seeks to minimize its production waste. For example, waste from poultry production is used to make granular fertilizers. In pork production, we use a unique monolithic seamless flooring technique at the nursery and finisher sites to prevent soil contamination with manure. We make every effort to promote resource conservation and energy efficiency among our employees. To this end, we have implemented waste sorting, as well as collection and disposal of used batteries and accumulators at our headquarters.

In 2019, we implemented a number of major projects to reduce our environmental footprint and decrease consumption of natural resources at our facilities:

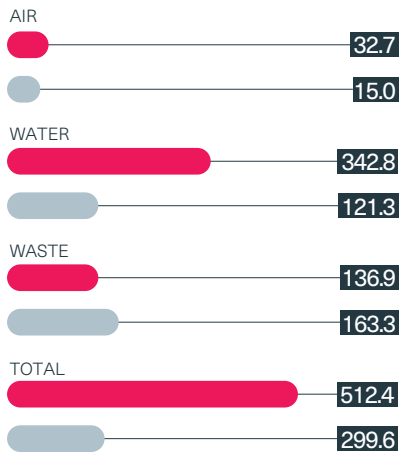
- Renovation and upgrade of treatment facilities at the production sites in the Lipetsk, Penza, Voronezh and Moscow regions. This includes renovation of the local full cycle treatment facilities at the Group's Dankov site. The project saw complete facility clean-up, equipment upgrade, treatment technology automation, and pollutant reduction in the plant's incoming flow.
- Overhaul of wells in the Moscow and Penza regions.
- Design and construction of composting facilities and poultry manure storages in the Lipetsk, Penza and Tambov regions.
- Launching a blood processing unit in the Penza Region.
- Construction and upgrade of exhaust and ventilation systems, as well as construction of lagoons and refurbishment of manure removal pipelines in the Lipetsk Region.

All environmental projects underwent state expert review to confirm compliance with regulatory requirements.

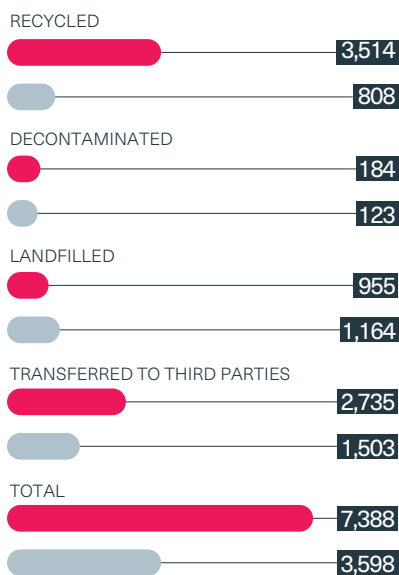
3.4%

the Group's energy consumption down in 2019

INVESTMENT IN ENVIRONMENTAL PROTECTION PROJECTS, RUB million



HAZARD CLASSES 1 TO 4 WASTE MANAGEMENT IN 2018-2019, thousand tonnes



KEY ENVIRONMENTAL IMPACT FACTORS

In 2019, Cherkizovo Group generated 2.2 times more waste of hazard classes 1 to 4 than in 2018. The rise was due to the acquisition of new legal entities and production increase. The growth in production contributed to a 30% increase in fresh water use from water sources, driving up treated wastewater discharge and pollutant emissions from stationary sources by 69% and 1.1%, respectively. In 2019, the Group's energy consumption per unit of output was down by 3.4% year-on-year helped by the energy efficiency initiatives.

PLANS

In 2020, we are planning to install an additional filtration-based air treatment system at Cherkizovsky Meat Processing Plant's Dankov site. It uses nozzles to feed and vaporize aromatized water, creating a wet barrier for dust and odours along the plant's perimeter. The new treatment system will help improve living conditions in Dankov, especially for people residing close to the plant.

COMMUNITY RELATIONS

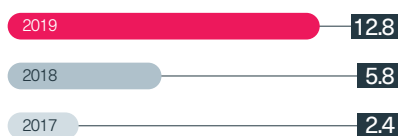
On top of that, the Company implements targeted assistance programs across its footprint to bolster educational and healthcare institutions, sponsor cultural events and sports teams, and help public organizations and socially disadvantaged groups.

Some of the charitable projects are initiated by our employees and funded by way of their personal contributions. For example, in December 2019, we sponsored a New Year's event for children and teenagers with Down syndrome, whose holiday gift wishes were posted in advance at the Company's Moscow office. The entire Group was able to contribute to purchasing gifts for the event.

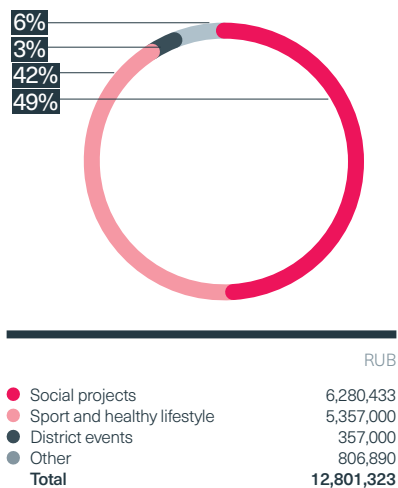
Our charitable initiatives go through a thorough vetting process, which includes discussion and approval by internal and some external stakeholders.

Increasingly more regions are covered by Cherkizovo Group's charitable projects. In 2019, we launched such projects in the Altai Territory and the Belgorod and Leningrad regions. .

INVESTMENT IN CHARITABLE PROJECTS, RUB million



INVESTMENT IN CHARITABLE PROJECTS IN 2019 BY SECTOR AND AREA



12.8

RUB million
invested in local community support and development
 in 2019



At Cherkizovo Group, we place great emphasis on the well-being and prosperity of local communities. We contribute to economic growth and security by creating jobs and making timely tax payments to the federal and regional budgets, which support local communities.



LOCAL COMMUNITY SUPPORT

The Company is committed to providing equal opportunities for all community members, particularly focusing on socially vulnerable groups. We support those in need through dedicated assistance programmes and sponsor social institutions, paying special attention to children from low-income families and those with special needs and disabilities.

In the spring of 2019, Cherkizovo Group donated RUB 4 billion and three brand new Belarus tractors to farmers in the Trans-Baikal Territory, helping them to recoup from devastating steppe fires, which had destroyed their property and agricultural machinery.

The Group also contributes to major charity events. In June 2019, we took part in the Running Hearts Green Marathon in Moscow. The race was organized by the Naked Heart Foundation and Sberbank. The funds raised during the event went to a charity fund supporting children with special needs. In September, the Company co-sponsored a charity race held by SAP and Arifmetika Dobra charity foundation in Moscow's Izmaylovsky Park. The event helped raise over RUB 1.5 million to cover education fees in orphanages.

In addition, Cherkizovo Group held its own race in Penza.

In the Penza and Lipetsk regions, we took part in Back to School charity events by donating stationery sets to first-graders from low-income and large families.

In November, Cherkizovo Group staged festivities for a rehabilitation center patients in the Lipetsk Region. Children enjoyed a comprehensive entertainment programme and a variety of treats. Employees from our Agro Division helped organize the event, handing over a wide range of gifts to the center.

We make every effort to promote sports among young people. In 2019, we built a rink for a secondary school in the Volovsky District of the Lipetsk Region and purchased hockey gear for students spending a total of over RUB 2.2 million on the project.

Cherkizovo supports the children's football team of the same name from Kashira: it purchases uniforms, pays for participation in the championship of the Moscow Region and transfers between matches.

In the reporting period, Cherkizovo Group also became the general sponsor of Crystal, a men's volleyball club from Voronezh, renamed Crystal Cherkizovo.

CORPORATE GOVERNANCE

In 2019, we continued to improve our corporate governance framework, with major industry experts joining the Management Board to bring in their global expertise.

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 31 December 2019 and reiterate their strong commitment to meeting all regulatory requirements and following the best corporate governance practices.

The Board of Directors acknowledges the key principles and recommendations set out in the Corporate Governance Code and views them as conducive to better governance and the Company's long-term sustainable development.

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.

Underpinned by vertical integration, it enables us to ensure that all of the Group's companies are governed efficiently.

CORPORATE GOVERNANCE FRAMEWORK

	Complied with	Partially complied with	Not complied with
Shareholder rights and equitable treatment of shareholders	9	2	2
The Company's Board of Directors	26	5	5
The Company's Corporate Secretary	2	–	–
Remuneration of the Company's directors, executives and other key managers	3	5	2
Risk governance and internal control	5	1	–
Disclosures and the Company's information policy	3	4	0
Material corporate actions	–	–	5



Managing sustainable development

At Cherkizovo, sustainable development is managed by different functions, with HSE matters falling within the remit of a special department headed by a direct report to the Head of Business Development, who is also the Chairman of the Board of Directors.

CORPORATE GOVERNANCE FRAMEWORK DEVELOPMENT IN 2019

In 2019, 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, with a particular focus on strengthening

the Management Board's competencies. Six new members joined the Management Board, including both members of the Company's talent pool and major industry experts with global experience.



Our full report on the Corporate Governance Code compliance is available at [e-disclosure.ru/portal/company.aspx?id=6652](https://www.cherkizovo.ru/portal/company.aspx?id=6652) (only available in Russian).

Cherkizovo Group has an **effective corporate governance framework compliant with regulatory requirements and global best practices**. Our management seeks to ensure sustainable development of the Company by balancing the interests of shareholders, employees, local communities, and other stakeholders.

KEY EVENTS AFTER THE REPORTING DATE

10 January 2020 Emin Mammadov was appointed Deputy CEO and his director status changed from independent to executive,

12 February 2020 the Board of Directors resolved to:

- appoint Oleg Zakov, Armen Pogosyan and Olga Buryak to the Management Board,
- remove Andrey Khizhnyak and Sergey Buylov from the Management Board,
- set the number of members of the Management Board at 16,
- recommend that the Annual General Meeting of Shareholders vote for allocating and paying RUB 60.92 per share in dividends for 2019.

02 March 2020 Leonid Izmailov, member of Cherkizovo Group's Management Board, acquired shares of Cherkizovo Group. Following the acquisition, Mr. Izmailov's share in the Company's authorized capital and his share in the Company's common stock was 0.00072%.

On **March 27th 2020**, the General Shareholder Meeting elected the following members of the Board of Directors: Balay John Michael, Mikhailov Evgeny, Mikhailov Sergey, Fuertes Quintanilla Rafael, Sobel Richard Paul, Kegels Filip, Warmoth Christopher John.

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 the Personnel and Remuneration Committee,
- the Regulations on the Investment and Strategic Planning Committee,
- the Regulations on the Management Board,
- the Regulations on the General Director,
- the Regulations on Internal Audit,
- the Regulations on the Review Commission,
- the Regulations on the Corporate Secretary,
- the Regulations on the Dividend Policy;
- the Regulations on Insider Information,
- the Regulations on Information Policy in Disclosure and Delivery of Information,
- the Regulations on Remuneration and Compensation Paid to the Members of the Board of Directors,
- the Regulations on the Liquidation Commission

No changes were made to the Company's regulations in 2019.

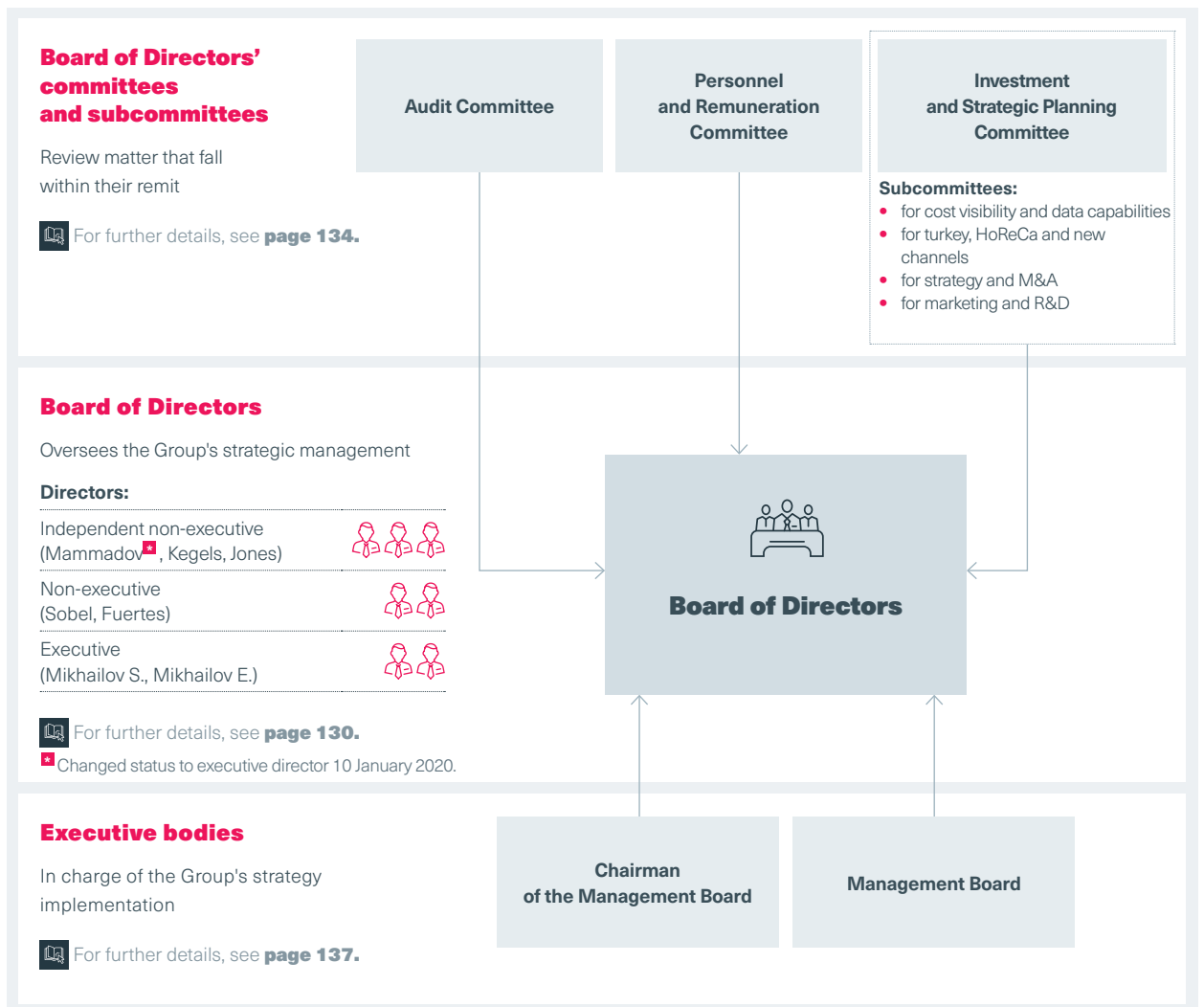
CORPORATE GOVERNANCE

CORPORATE GOVERNANCE STRUCTURE

The General Meeting of Shareholders is the supreme governing body of Cherkizovo Group. The corporate governance structure also includes the Board of Directors, the executive tier represented by the CEO and the Management Board led by the CEO as Chairman, and the Review Commission acting as a supervisory body.

The Board of Directors has three standing committees and four subcommittees.

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





27 March 2019: Annual General Meeting of Shareholders

9 April 2019, 15 May 2019, 26 September 2019:
Extraordinary General Meetings of Shareholders

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 2020 budget and long-term plans.

DIVIDENDS

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 upon the recommendation of the Investment and Strategic Planning Committee, taking into account the Group’s current financial standing and the proposed distribution amount. The effective Dividend Policy provides for a targeted dividend payout of at least 50% of consolidated net profit for the reporting period. The final decision on profit distribution and dividend payout is made by the General Meeting of Shareholders.

Dividends are paid semiannually: for the first half and the full year.

In accordance with the decision made at the Annual General Meeting of Shareholders on 27 March 2019 and taking into account the Group’s 2018 performance, the total dividend payout for the year amounted to RUB 4.2 billion, with dividend per share of RUB 101.63 (excluding the 2.916.759 treasury ordinary registered shares).

The Extraordinary General Meeting of Shareholders of Cherkizovo Group held on 26 September 2018 in the form of absentee voting resolved to distribute net profit for 1H 2019 in the amount of RUB 2.0 billion, with dividend per share of RUB 48.79 (excluding the 2.916.759 treasury ordinary registered shares).

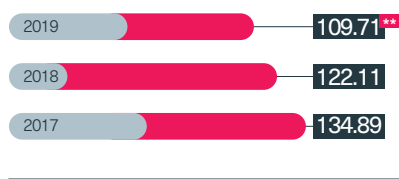
GENERAL MEETING OF SHAREHOLDERS

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 Review Commission members,
- appointment of the Company’s auditor.

The agenda of the AGM can be expanded to include other matters.

The Board of Directors may resolve to convene an Extraordinary General Meeting of Shareholders, if necessary.



	2017	2018	2019
● Full-year dividends	75.07	101.63	60.92
● Interim dividends	59.82	59.82	59.82

■ On 12 February 2020, the Board of Directors resolved to recommend that the Annual General Meeting of Shareholders vote for paying RUB 60.92 per ordinary share in dividends for 2019.

** 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

CORPORATE GOVERNANCE

In 2019, the AGM was held on 27 March. In accordance with the agenda, the shareholders:

- approved Cherkizovo Group's 2018 annual report and annual accounting (financial) statements for 2018 prepared in accordance with the Russian Accounting Standards,
- passed a resolution on profit distribution and dividend payout,
- elected the Board of Directors and the Review Commission members,
- reappointed Deloitte & Touche CIS as Cherkizovo Group's auditor for 2019.

9 April

An interested-party transaction (several interrelated transactions) involving the sale of more than 2% of the Company's outstanding ordinary shares approved.

15 May

- The Company's address and place of business changed, the Articles of Association amended accordingly.
- Resolutions passed to join the Russian Union of Industrialists and Entrepreneurs (RSPP) and the Etalon Labor Safety and Health Association.

26 September

A resolution on profit distribution and dividend payout for 1H 2019 passed.

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,
- setting up and dissolving the Group's executive bodies,
- approving financial plans and budgets,
- making recommendations on profit and loss distribution.
- In performing its role, the Board of Directors is guided by the following principles:
 - decision-making based on reliable information about the Company's operations,
 - ensuring shareholders' rights to participate in the management of the Company, receive dividend payouts and information about Cherkizovo Group,
 - 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, 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.

This rule applies to:

- major transactions (require approval by a unanimous vote),
- interested-party transactions (resolved 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.

BOARD ACTIVITIES

In 2019, Cherkizovo Group's Board of Directors held ten meetings, including nine with directors present in person. Key items reviewed in the reporting year:

- the Company's budget
- the Company's development strategy
- Risk management
- Convocation of General Meetings of Shareholders, and recommendations on dividends
- Consents to interested-party transactions
- Reports by committee and subcommittee chairmen

The attendance of meetings held in person was 87%, which the Company rates as satisfactory.

10

meetings

held by the Board
of Directors
Cherkizovo Group in 2019

87%

total attendance

of in-person meetings
of the Board of Directors

**MEMBERS OF THE BOARD
OF DIRECTORS**

No members left or joined the Board of Directors in 2019. Sergey Igorevich Mikhailov, Evgeny Igorevich Mikhailov, Emin Tofik oglu Mammadov, Richard Paul Sobel, Rafael Fuertes Quintanilla, Elliot Brinton Jones, and Filip Kegels were all re-elected to the Board at the AGM in March 2019.

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

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

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

**INFORMATION ON INDEPENDENT AND NON-EXECUTIVE DIRECTORS,
SHARES IN THE AUTHORIZED CAPITAL AND SHARE OWNERSHIP²**

Board member	Independent director	Non-executive director	Executive director	Share in the authorized capital	Share ownership
Elliot Jones	+	-	-	-	-
Rafael Fuertes	-	+	-	Grupo Fuertes 8.01%	-
Richard Sobel	-	+	-	-	-
Emin Mammadov	+	-	-	-	-
Evgeny Mikhailov	-	-	+	26.27%	26.27%
Sergey Mikhailov	-	-	+	26.27%	26.27%
Filip Kegels	+	-	-	-	-

**DIRECTOR EXPERIENCE
AND EXPERTISE**

The directors have all necessary competencies, which cover:

- insights from extensive experience in:
 - animal farming
 - poultry farming
 - meat processing
 - agriculture

- food manufacturing
- promotion of consumer goods in emerging markets
- restaurants and HoReCa
- strategic development and M&A
- consumer brand marketing and development
- finance and audit
- investment
- management of global operations
- international business consulting
- investment case studies.

² the table does not include the remote meeting of the Board of Directors held on 13 March 2019 (ballot voting). Only those members of the Board of Directors who were not interested in approving the interested party transaction and who met the requirements of the law for persons entitled to vote on these issues took part in it.

² As of 31 December 2019.

CORPORATE GOVERNANCE

Members of the board of directors

- 1 Evgeny Mikhailov
- 2 Sergey Mikhailov
- 3 Emin Mammadov
- 4 Richard Sobel
- 5 Rafael Fuertes
- 6 Elliot Jones
- 7 Filip Kegels

Evgeny Mikhailov

Executive director, Chairman of the Board of Directors

Evgeny Mikhailov is the Chairman of the Board of Directors of PJSC 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 Mikhailov

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

Sergey Mikhailov 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. Mikhailov 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 Mikhailov 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 also founded and headed aTelo, Inc., a telecommunications company based in Washington, USA.

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

Emin Mammadov

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

Emin Mammadov is a seasoned expert with over 20 years' FMCG experience in emerging markets, including at large global companies where he headed divisions in RIMEA (Russia, India, Middle East, and Africa) and China.

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



Richard Sobel

Non-executive director, Deputy Chairman of the Board of Directors, 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 firm which specializes in providing advice on potential investment opportunities in Russia, CIS, Europe and the USA.

Previously, he was an adviser 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, Chairman of the Personnel and Remuneration Committee, member of the Audit Committee and member of the Investment and Strategic Planning 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, Morocco, 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 Yakult (Japan), Strauss Health, Israel, Mengniu Group, China, Brookside, Kenya, and Fanmilk Sub-Saharan Africa, Luxembourg.

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

CORPORATE GOVERNANCE

BOARD COMMITTEES

There are three standing Board Committees in Cherkizovo Group:

- the Audit Committee,
- the Personnel and Remuneration Committee,
- 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[✶].

No updates we made to the committee regulations in 2019.

All Committee members have the skills, experience and resources required to efficiently perform their duties and may also engage external consultants.

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. These 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 its meeting at the next meeting of the Board of Directors.

In April 2019, the Board of Directors approved the members and Chairmen of all three committees.

Committee

Key functions



Audit Committee (operating since 2006)

- 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.



Personnel and Remuneration Committee

(operating since 2010)

- 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.



Investment and Strategic Planning Committee

(operating since 2012)

- to review the proposals submitted to the Board of Directors with regard to setting the Company's business priorities,
- development strategy and investment policy,
- to assess and review strategic projects and organic growth opportunities,
- to consider investment and dividend policy matters.
-

[✶] the regulations are available on Cherkizovo Group's website in the Corporate Documents section at <https://cherkizovo.com/en/investors/#/en/company/corporate-governance/documents/>

Members	Meetings held in 2019	Attendance	Key matters reviewed in 2019
<p>In 2019, the Committee included only independent directors:</p> <p>Elliot Jones (Chairman), Emin Mammadov, Filip Kegels.</p>	4	100%	<ul style="list-style-type: none"> • Quarterly, semi-annual and annual financial results and press-releases • External and internal auditors reports
<p>In 2019, the Committee included only independent directors:</p> <p>Filip Kegels (Chairman), Elliot Jones, Emin Mammadov.</p>	9	93%	<ul style="list-style-type: none"> • Company Development Strategy • Strategic projects • M&As and integration of acquired companies • CAPEX and ROIC issues • Certain lines of business (ready-to-eat, foodservice, export, etc.)
<p>Emin Mammadov (Chairman), Richard Sobel, Sergey Mikhailov, Elliot Jones, Rafael Fuertes, Filip Kegels.</p>	5	90%	<ul style="list-style-type: none"> • CEO and Management Board KPIs • Organizational design and structure • Long-term incentives for key officers • Talent management • Corporate culture • Succession planning

Four subcommittees of the Investments and Strategic Planning Committee operated in 2019:

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

The subcommittees report the results of their work in a given year at a joint meeting of the Investment and Strategic Planning Committee and the Personnel and Remuneration Committee. the Chairmen of subcommittees report to the Board of Directors at least once a quarter.

CORPORATE GOVERNANCE

BOARD OF DIRECTORS' PERFORMANCE ASSESSMENT

At Cherkizovo Group, the Board of Directors conducts an annual evaluation of its work in the reporting period, which includes performance assessment of the Board's committees. The evaluation results are reviewed at a meeting of the Board held in person. The Board rated its performance in 2019 as successful.

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](#).

According to the Regulations, the Board directors are paid an annual remuneration for their work in the Board of Directors comprising a fixed (base and additional remuneration) and variable (annual bonus) part. 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 provided to the Board directors.

In 2019, the Board of Directors' remuneration totalled RUB 136.1 million.

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.

REMUNERATION OF THE BOARD OF DIRECTORS

	Base remuneration	Additional remuneration	Annual bonus	Reimbursable expenses
Calculation basis for remuneration, RUB	5,340,000	Chairman	26,700,000	
		Deputy Chairman	1,068,000	roundtrip travel to the meeting venue,
		Committee Chairman	1,068,000	accommodation and meals
		Subcommittee Chairman	1,068,000	expenses not directly related to the Board meetings, but associated with its work and approved in writing by the Board Chairman
		For each additional meeting (>6 per year)	100,000	
			AB = BR * (EBITDAr * 0.3 + CFr * 0.3 + SCr * 0.4), but no more than 125% of BaR, where	
			AB – annual bonus,	
			BR – base remuneration	
			EBITDAr – ratio of actual to target EBITDA,	
			CFr – ratio of actual to target Cash Flow,	
			SCr** – ratio of actual to target subcommittee KPI value	

* Directors serving as chairs of two or more committees are eligible for only one additional remuneration. A similar rule applies to chairs of subcommittees.

** Applies to subcommittee members only. In case of membership in two or more subcommittees, the ratio of the subcommittee in which the member was most active applies.

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 acts as Cherkizovo Group's Chief Executive Officer (CEO). the CEO's mission is to:
 - ensure Cherkizovo Group's profitability and competitive performance, its financial and economic sustainability,
 - oversee the observance of shareholders' rights, and
 - ensure the provision of employee benefits to Cherkizovo Group's personnel.

MEMBERS OF THE MANAGEMENT BOARD

As of 31 December 2019, the Management Board consisted of 15 members. the Management Board is chaired by Sergey Mikhailov, Cherkizovo Group's CEO.

In 2019, the Board saw the following changes:

- in April, the Board of Directors removed John Ross and elected Sergey Buylov, Ray Cheeks, Roger Jones, Evgeny Subbotin and Alexey Kletsko to the Management Board,
- in November, the Board of Directors removed Violetta Shimkevich and elected Akim Tiunov to the Management Board.

REMUNERATION OF THE MANAGEMENT BOARD AND BOARD OF DIRECTORS

In 2019, total remuneration amounted to RUB 680.6 million. Remuneration of the Board of Directors was RUB 136.1 million, and remuneration of Management Board was RUB 544.5 million.

15

members

of the Management Board,
as of 31 December 2019

CORPORATE GOVERNANCE



Sergey Mikhailov

Chief Executive Officer,
Chairman of the Management Board

Sergey Mikhailov 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. Mikhailov 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 Mikhailov was appointed Marketing Director of Cherkizovskiy 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 Cherkizovskiy.

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. Mikhailov ranks among the Top 1,000 Russian Managers, leading the charge in the 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 Mikhailova

Chief Financial Officer,
Member of the Management Board

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

A number of major transactions were implemented under Ludmila Mikhailova'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 Mikhailova 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%**

AS OF 31 DECEMBER 2019



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 headed Cherkizovo's Agro Division and was 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.

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%**

CORPORATE GOVERNANCE



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 the 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.

AS OF 31 DECEMBER 2019



Evgeny Subbotin

Director for Logistics and Supplies,
Member of the Management Board

Evgeny Subbotin has served as Director for Logistics and Supplies heading the supply chain operations of the Group since 2017. He is responsible for integrating the logistics operations of the Poultry, Meat Processing and Turkey segments into a single centralized structure. He also oversees the efforts to bring the planning functions of sales, production, and packaging and ingredient supply within a single planning unit. Mr Subbotin is also in charge of designing and bringing on stream the Route to Market project.

He has 17 years of experience in procurement and logistics, including 15 years of managing supply chains and procurement in major corporations like Carlsberg Group (Vena and Baltika Breweries), Danone Group (Danone, Nutricia), and SC Johnson.

He graduated from the St Petersburg State University of Architecture and Civil Engineering with a degree in Road Transportation Management and Logistics.

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



Akim Tiunov

Manufacturing Director, Member
of the Management Board

His major focus is management of production segments of the Group, production strategy planning and development, business-process optimization, and modern and innovative production technologies implementation.

Before joining Cherkizovo Group, Akim was Manufacturing Vice-President at Kraft Heinz. From 2000 to 2007, he worked at major international corporations, including OTIS Elevators and Ford Motor Company.

Akim Tiunov graduated from St Petersburg State University of Architecture and Civil Engineering, and St Petersburg Polytechnic University.

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



Roger Jones

Agrodivision Director of Operations,
Member of the Management Board

Roger Jones has been Agrodivision Director of Operations since late 2018. From 2014 to 2018, he headed the financial control team within the Finance Department. Since 2013, he had been holding the post of Deputy Director for Economics and Finance at Cherkizovo Group's Pork Management Company.

Roger is responsible for design and implementation of the development strategy for the economics and finance function. In addition, he oversees efforts to streamline the planning, accounting, and reporting systems and supervises the segment's financial analysis and control processes, and project financing.

Roger Jones graduated with honors from Bloomsburg University of Pennsylvania with a degree in Accounting.

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

CORPORATE GOVERNANCE



Ray Cheeks

Director of Operations at Tambov Turkey, Member of the Management Board

Ray Cheeks has been Director of Operations at Tambov Turkey since 2018. His responsibilities include overseeing the company's day-to-day operations and ongoing activities in line with performance targets, including operational efficiency, costs, and quality.

Prior to joining Cherkizovo Group, he held senior positions in a number of major corporations, including Brown & Williamson Vintage Tobacco Coupons, KRAFT FOODS, and POSS Design Limited.

He graduated from Clemson University with a degree in Electrical Engineering.

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



Alexey Kletsko

Director for Strategy, Member of the Management Board

Alexey Kletsko oversees strategy development at Cherkizovo Group. He is responsible for M&A and asset integration, business development, and expert and methodological support for strategic development of various segments and functions.

Prior to joining Cherkizovo Group, Alexey ran strategic development projects at major Russian and international companies, including Megapolis, Fesco, Rolf, and McKinsey & Company.

He graduated from the Moscow Institute of Physics and Technology with a degree in Applied Mathematics and has an MBA from HEC Paris.

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 Meat 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.

Andrey 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.

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

AS OF 31 DECEMBER 2019



Sergey Buylov

Managing Director of the Meat Processing segment, Member of the Management Board

Sergey Buylov has been Managing Director of the Meat Processing segment since 2019. He is responsible for the segment's strategic and operational planning and management. He oversees development and implementation of marketing and business strategies, sales planning and assortment policy across the sales channels. He also supervises budgeting, management accounting, financial planning, and financial performance analysis and control.

For 17 years prior to joining Cherkizovo Group, he worked for Danone in Russia, France and Belgium, holding senior management positions in various areas, including procurement and sales. Before that, he served as Commercial Director at L'Oreal Russia and CEO at Natura Siberica.

Sergey graduated from the faculty of International Economic Relations of the Plekhanov Russian University of Economics with degrees in marketing and sales. He also holds degrees in international economic relations from two French universities.

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



Anastasia Bakhmacheva

Corporate Secretary

CORPORATE SECRETARY

The Corporate Secretary is a Company officer who ensures effective ongoing communication with the Group shareholders, oversees the protection of the shareholders' rights and interests, supports operations of the Board of Directors and coordinates the activity of the Board sub-committees. The scope of the Corporate Secretary's role is defined in 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 has been in corporate governance for 17 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. In 2011–2014, she worked as Director at VTB Bank overseeing implementation of a single corporate governance framework 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 the Ministry of Justice of the Russian Federation with a degree in Civil Law and from 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 as part of the Director of the Year Awards.

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

CORPORATE GOVERNANCE

INTERNAL CONTROL AND RISK MANAGEMENT

The Board of Directors is responsible for maintaining the internal control and risk management framework at Cherkizovo Group and for ensuring its effectiveness. In November and December 2019, the Board of Directors reviewed the risk management report and put forward recommendations for the management to improve the risk management framework. Throughout the year, the Audit Committee reviewed internal control and audit matters on a quarterly basis.

The key documents governing the internal control function are:

- the Regulations on the Board of Directors Audit Committee,
- the Regulations on the Internal Audit.

The Company's Internal Audit Service operates in line with regulatory requirements, professional standards and international best practices. It conducts centralized internal audit of all departments. Key functions of the Internal Audit Service:

- to review, assess and monitor the reliability and effectiveness of the internal control systems;
- to monitor compliance with financial and business operations procedures, internal regulations, including those relating to the risk of management override;

- to assess the appropriateness of management decisions made following audits, to identify areas for efficiency improvements;
- to check asset availability and safety;
- to interact with the independent external auditor.

The Internal Audit Service monitors the implementation of recommendations following audits. The monitoring procedure is considered completed only if there is a report on the measures taken in line with the recommendations.

In 2020, the Internal Audit Service plans to assess the reliability and performance of the internal control framework with regard to a number of key business processes of the Group selected according to the risk-based approach criteria.

Internal control is also exercised by the Review Commission pursuant to the Articles of Association and the Regulations on the Review Commission. The Review Commission 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 2019, the AGM elected the Review Commission consisting of Nina Erkovich, Aminat Shamkhalova and Nadezhda Emelyanova.

DISCLOSURE

Cherkizovo Group is committed to being a transparent company open to stakeholders. The Group discloses information pursuant to the Regulations of Information Policy in Disclosure and Delivery of Information and external disclosure requirements and recommendations:

- 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.

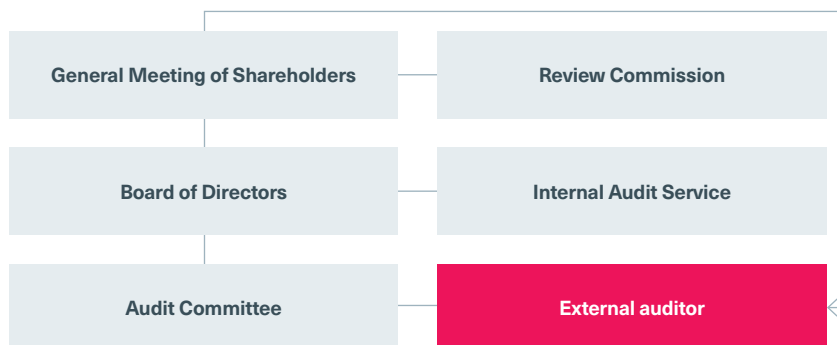
In 2019, the disclosure requirements imposed by the Russian laws did not see any changes.

The Group's information policy seeks:

- to ensure stakeholders' right to information they need for decision-making on investment, management and other matters,
- to promote openness and transparency, enhancing the Group's overall corporate image.

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.

CONTROL FRAMEWORK



Cherkizovo Group discloses information:

- on its corporate website cherkizovo.com/,
- via the Interfax news agency e-disclosure.ru/portal/company.aspx?id=6652,
- at meetings with stakeholders,
- by other means stipulated by laws and internal regulations of the Group.

The main landmark in 2019 was the relaunch of the Company's corporate website. The website address remains the same – cherkizovo.com, while its design became more intuitive and modern. It is now more convenient for users to find relevant information and follow the Company's news.

In 2019, the Group continued reporting its financial performance on a quarterly basis, and its operational results – on a monthly basis.

MAJOR AND INTERESTED-PARTY TRANSACTIONS

In 2019, Cherkizovo Group entered into one major transaction and seven interested-party transactions recognised as such under the Federal Law On Joint-Stock Companies. These transactions were either approved by the Board of Directors or made following prior notification of the members of the management bodies stipulated in Article 81, Clause 1.1 of the Federal Law On Joint-Stock Companies without prior approval required.

The Company publishes information on major and interested-party transactions at e-disclosure.ru/portal/company.aspx?id=6652.

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 auditor, Deloitte & Touche CIS, was approved for reappointment in March 2019.

The General Meeting of Shareholders annually considers external auditor approval.

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 of 27 July 2010 were 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). The Group's stocks are traded in the Level 3 List as its free float remained below 7.5% of outstanding shares for six consecutive months. The Group may restore the level in 2–3 years depending on the macroeconomic environment.

The Group delisted its GDRs from the London Stock Exchange (LSE) in 2018, but continues its GDR programme. It may be terminated at the Company's discretion.

As of the end of 2019, the share price grew by 55% to RUB 1,736 per share.

ORDINARY SHARE PRICE PERFORMANCE IN 2019*, RUB



Source: Moscow Exchange

CHERKIZOVO GROUP'S ORDINARY SHARE PRICE PERFORMANCE IN 2019*

As of 31 December 2018	1 118
12M high	2 120
12M low	1 118
As of 31 December 2019	1 736
Average 12M closing price	1 688
12M ADTV, shares	1 894

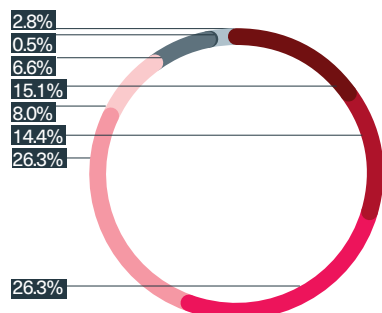
Source: Moscow Exchange

69%

Total shareholder return amounts
including dividends paid in 2019[■]

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.



	%
Boltenko Law GmbH	15.1
Lidiya Mikhailova	14.4
Evgeny Mikhailov	26.3
Sergey Mikhailov	26.3
Grupo Corporativo Fuertes, S.L.	8.0
AIC Mikhailovsky	6.6
Management	0.5
Free float	2.8

The Company's key shareholders (in total, 82.1% of all shares) are Sergey Mikhailov, Evgeny Mikhailov, Lidiya Mikhailova, and Boltenko Law GmbH.

BONDS

Series	BO-001P-02	BO-001P-01
Registration number	4B02-02-10797-A-001P	4B02-01-10797-A-001P
Stock exchange	Moscow Exchange	Moscow Exchange
Annual coupon	7.5 %	12.5%
Issue date	28 November 2019	13 October 2015
Coupon payment	Quarterly	Semi-annually
Issue amount	RUB 10 bln	RUB 5 bln
Maturity	3.5 years	5 years

INVESTOR AND SHAREHOLDER RELATIONS

Cherkizovo Group seeks to attract new investment and actively cooperates with stock market players. In 2019, the Company interacted by communicating press releases with operational and financial results, by holding conference calls and meetings in person, and by organizing other dedicated events.

Also, the Group updated its corporate website in 2019. a new user-friendly section for investors contains the Company's key performance indicators, reports and presentations, securities information, and other helpful data. the investor calendar for the current year is available at <http://cherkizovo.com/en/investors/calendar/>.

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>.

[■] Total shareholder return is a percentage calculated by dividing the closing share price adjusted for dividends paid in the period, if any, by the opening share price.

CONSOLIDATED FINANCIAL STATEMENTS

PJSC CHERKIZOVO GROUP

Consolidated Financial Statements
for the year ended 31 December 2019 and
Independent Auditor's Report

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STATEMENT OF MANAGEMENT RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2019

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 2019, 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 2019 were approved by Management on 13 February 2020.

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 2019, 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 2019, 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 2019, and its consolidated financial performance and its consolidated cash flows for 2019 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 CONTINUED

WHY the MATTER WAS DETERMINED a KEY AUDIT MATTER

HOW the MATTER WAS ADDRESSED IN the AUDIT

Valuation of biological assets

At 31 December 2019 the carrying values of current and non-current biological assets related to pork segment were RUB 7,390 million and RUB 2,007 million respectively (2018: RUB 7,628 million and RUB 2,638 million) and the carrying value of current biological assets related to poultry segment was RUB 6,749 million (2018: RUB 6,004 million).

Biological assets are stated at fair value less estimated costs to sell. At 31 December 2019 the effect of fair value adjustment on the carrying value of biological assets was RUB 5,204 million (2018: RUB 6,583 million).

Further details are provided in Notes 4 and 17 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 being unobservable inputs, 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.

INDEPENDENT AUDITOR'S REPORT CONTINUED

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern; and
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Srbuhi Hakobyan,

Engagement partner

13 February 2020

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: 1, Cherkizovskaya street, Topkanovo village, Kashira, Moscow region, Russian Federation, 142931

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-regulatory organization of auditors Association "Sodruzhestvo", ORNZ 12006020384.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

(in millions of Russian rubles, unless otherwise indicated)

	Notes	2019	2018 (restated) *
Revenue	5	120,109	100,422
Net change in fair value of biological assets	17	(1,379)	1,836
Net revaluation of harvested crops in stock	17	29	2,242
Cost of sales	6	(90,896)	(75,318)
Gross profit		27,863	29,182
Selling, general and administrative expenses	7	(17,441)	(14,234)
Other operating (expenses) income, net	8	(110)	664
Share of loss of joint ventures and associates	18	(123)	(57)
Operating profit		10,189	15,555
Interest income		243	290
Interest expense, net	9	(4,484)	(3,267)
Other income (expenses), net	10	749	(785)
Profit before income tax		6,697	11,793
Income tax (expense) benefit	11	(46)	187
Profit for the year and total comprehensive income		6,651	11,980
Profit and total comprehensive income attributable to:			
Cherkizovo Group		6,751	12,004
Non-controlling interests		(100)	(24)
Earnings per share			
Weighted average number of shares outstanding – basic and diluted:		41,047,014	41,047,014
Profit attributable to Cherkizovo Group per share – basic and diluted (in Russian rubles):		164.46	292.45

* Comparative information for the year ended 31 December 2018 was retrospectively restated in order to reflect the change in accounting policy in relation to the presentation of general and administrative expenses incurred in production sites and related to production and the change in accounting policy in relation to the presentation of other sales related to non-core activities of the Group and related cost of sales (Note 2).

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2019

(in millions of Russian rubles, unless otherwise indicated)

	Notes	31 December 2019	31 December 2019 (restated) *
ASSETS			
Non-current assets			
Property, plant and equipment	12	82,622	82,393
Investment property	13	664	595
Right-of-use assets	14	1,567	-
Goodwill	15	1,628	1,628
Intangible assets	16	2,335	2,144
Non-current biological assets	17	2,007	2,673
Investments in joint ventures and associates	18	3,789	3,518
Long-term deposits in banks	19	641	641
Restricted cash		-	109
Deferred tax assets	11	1,214	1,073
Rights to claim debt	33	4,685	4,685
Other non-current assets		1,239	678
Total non-current assets		102,391	100,137
Current assets			
Biological assets	17	16,287	15,395
Inventories	20	13,223	12,429
Taxes recoverable and prepaid	21	2,396	1,909
Trade receivables, net	22	5,476	5,733
Advances paid, net		844	875
Other receivables, net	23	199	1,523
Cash and cash equivalents	24	3,304	9,613
Other current assets	25	328	563
Total current assets		42,057	48,040
TOTAL ASSETS		144,448	148,177

* Comparative information for the year ended 31 December 2018 has been retrospectively adjusted for the finalisation of the allocation of the purchase price of businesses acquired in 2018 (Note 33).

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION CONTINUED

For the year ended 31 December 2019
(in millions of Russian rubles, unless otherwise indicated)

	Notes	31 December 2019	31 December 2019 (restated) [*]
EQUITY AND LIABILITIES			
Equity			
Share capital	26	-	-
Treasury shares		(3,724)	(3,724)
Additional paid-in capital		5,622	5,611
Retained earnings		58,507	57,932
Total shareholder's equity		60,405	59,819
Non-controlling interests	27	879	990
Total equity		61,284	60,809
Non-current liabilities			
Long-term borrowings	28	43,182	44,643
Long-term lease liabilities	29	759	-
Deferred tax liability	11	1,023	996
Total non-current liabilities		44,964	45,639
Current liabilities			
Short-term borrowings	28	20,790	24,170
Short-term lease liabilities	29	420	-
Trade payables		11,560	10,830
Advances received		893	576
Payables for non-current assets		656	1,216
Tax related liabilities	30	1,327	1,325
Payroll related liabilities		2,317	2,707
Other payables and accruals		237	905
Total current liabilities		38,200	41,729
Total liabilities		83,164	87,368
TOTAL EQUITY AND LIABILITIES		144,448	148,177

^{*} Comparative information for the year ended 31 December 2018 has been retrospectively adjusted for the finalisation of the allocation of the purchase price of businesses acquired in 2018 (Note 33).

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

(in millions of Russian rubles, unless otherwise indicated)

	Share capital		Share capital		Additional paid-in capital	Retained earnings	Total shareholder's equity	Non-controlling interests	Total equity
	Amount	Number of shares	Amount	Number of shares					
Balances at 1 January 2018	-	43,963,773	(3,724)	(2,916,759)	5,588	49,850	51,714	1,066	52,780
Profit for the year and total comprehensive income	-	-	-	-	-	12,004	12,004	(24)	11,980
Purchase of non-controlling interests	-	-	-	-	23	-	23	(52)	(29)
Dividends (Note 26)	-	-	-	-	-	(3,922)	(3,922)	-	(3,922)
Balances at 31 December 2018	-	43,963,773	(3,724)	(2,916,759)	5,611	57,932	59,819	990	60,809
Profit for the year and total comprehensive income	-	-	-	-	-	6,751	6,751	(100)	6,651
Purchase of non-controlling interests	-	-	-	-	11	-	11	(11)	-
Dividends (Note 26)	-	-	-	-	-	(6,176)	(6,176)	-	(6,176)
Balances at 31 December 2019	-	43,963,773	(3,724)	(2,916,759)	5,622	58,507	60,405	879	61,284

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

(in millions of Russian rubles, unless otherwise indicated)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	6,697	11,793
Adjustments for:		
Depreciation and amortisation	7,818	6,045
Changes in allowance for expected credit losses	129	118
Foreign exchange (gain) loss, net	(676)	829
Interest income	(243)	(290)
Interest expense, net	4,484	3,267
Net change in fair value of biological assets	1,379	(1,836)
Net revaluation of harvested crops in stock	(29)	(2,242)
Loss (gain) on disposal of property, plant and equipment, net	164	(47)
Loss (gain) on disposal of non-current biological assets, net	60	(192)
Share of loss of joint ventures and associates	123	57
Other adjustments, net	(82)	(52)
Operating cash flows before working capital and other changes	19,824	17,450
Increase in inventories	(465)	(713)
Increase in biological assets	(1,096)	(764)
Decrease (increase) in trade receivables	108	(1,279)
Decrease in advances paid	45	536
(Increase) decrease in other receivables and other current assets	(66)	626
Decrease in other non-current assets	8	62
Increase in trade payables	1,175	1,321
(Decrease) increase in tax related liabilities (other than income tax)	(19)	508
(Decrease) increase in other current payables	(258)	618
Operating cash flows before interest and income tax	19,256	18,365
Interest received	232	245
Interest paid	(4,254)	(4,159)
Government grants for compensation of interest expense received	1,282	333
Income tax paid	(460)	(606)
Net cash from operating activities	16,056	14,178

CONSOLIDATED STATEMENT OF CASH FLOWS CONTINUED

For the year ended 31 December 2019
(in millions of Russian rubles, unless otherwise indicated)

	2019	2018
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(8,092)	(9,182)
Purchase of non-current biological assets	(1,307)	(944)
Purchase of intangible assets	(504)	(431)
Proceeds from sale of property, plant and equipment	350	181
Proceeds from disposal of non-current biological assets	834	993
Acquisitions of subsidiaries, net of cash acquired	(1,658)	(5,646)
Investments in joint ventures and acquisitions of associates	(788)	(579)
Placing of deposits and issuance of loans	(161)	(101)
Repayment of loans issued and notes receivable and redemption of deposits	369	388
Net cash used in investing activities	(10,957)	(15,321)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term loans	26,295	30,007
Repayment of long-term loans	(21,870)	(21,056)
Proceeds from short-term loans	35,367	22,263
Repayment of short-term loans	(44,604)	w
Repayment of lease obligations	(420)	-
Dividends paid	(6,176)	(3,922)
Purchase of non-controlling interests	-	(29)
Net cash (used in) generated from financing activities	(11,408)	10,051
Net (decrease) increase in cash and cash equivalents	(6,309)	8,908
Cash and cash equivalents at the beginning of the year	9,613	705
Cash and cash equivalents at the end of the year	3,304	9,613

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

(in millions 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 1, Cherkizovskaya st., Topkanovo village, Kashira, Moscow region, 142931, Russia.

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

At 31 December 2019 and 2018 the Group included the following principal companies:

Name of company	Legal form	Nature of business	%	%
			31.12.2019	31.12.2018
JSC Cherkizovsky Meat Processing Plant (JSC CMPP)	Joint Stock Company	Meat processing plant	95%	95%
LLC PKO Otechestvennyi Product	Limited Liability Company	Meat processing plant	95%	95%
JSC Cherkizovo-Kashira	Joint Stock Company	Meat processing plant	95%	95%
JSC Petelinskaya	Joint Stock Company	Raising poultry *	88%	88%
JSC Vasiljevskaya	Joint Stock Company	Raising poultry	100%	100%
JSC 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%
LLC Lisko Broiler	Limited Liability Company	Raising poultry	100%	100%
JSC Altaisky Broiler	Joint Stock Company	Raising poultry	100%	100%
LLC Cherkizovo trade house	Limited Liability Company	Trading company	88%	88%
LLC Cherkizovo-Pork	Limited Liability Company	Pig breeding	100%	100%
LLC Cherkizovo-Grain Production	Limited Liability Company	Grain crops cultivation	100%	100%
LLC Agrarnaya Gruppya ***	Limited Liability Company	Grain crops cultivation	-	100%
JSC Lipetskmyaso ***	Joint Stock Company	Grain crops cultivation	-	100%

* Hereinafter poultry includes only chicken.

** In August 2019 JSC Mosselprom was merged with JSC Kurinoe Tsarstvo.

*** In December 2019 LLC Agrarnaya Gruppya and JSC Lipetskmyaso were merged with LLC Cherkizovo-Grain Production.

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 (including meat processing plant operated by an equity associate Samson – Food Products), thirteen full pig production complexes, twenty one wean-to-finish facilities and two saw farms, nine poultry production complexes (including the Belaya Ptitsa production complex which is currently operate pursuant to a lease agreement), nine combined fodder production plants and more than 300,000 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"), Руат Zvezd ("Пять Звезд"), Petelinka ("Петелинка"), Kurinoe Tsarstvo ("Куриное Царство") and Imperia Vkusa ("Империя вкуса") and has a diverse customer base.

Operating environment

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

Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. Starting from 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. This led to reduced access of the Russian businesses to international capital markets. the impact of further economic 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 ("IFRS").

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 IFRS 16, 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.

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2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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 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.

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2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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.

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. The estimated useful lives for the current and comparative periods are as follows:

Land	indefinite life
Buildings, infrastructure and lease hold improvements	10-40 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.

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2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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.

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 changes 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.

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2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

Revenue recognition

The Group derives its revenue from five main sources: sale of processed meat, poultry, pork, grain crops and feed. Disaggregation of revenue is consistent with the revenue information that is disclosed for each reportable segment. Revenue is recognised when control of the products has transferred, being when the products are shipped or when the goods are delivered to the customer, it has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products.

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

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

The Group grants discounts to customers primarily based on the volume of goods purchased. Discounts are based on monthly, quarterly, or annual target sales. Discounts are offered in the meat processing segment and in the poultry segment. The discounts are graduated to increase when actual sales exceed target sales.

The Group offers product guarantees to its customers, providing them with an option to return damaged and non-conforming goods and goods of initial improper quality. The period that goods may be returned is typically limited to the expiration period for the goods shipped and is not exceeding one month from the date of shipment. Returns are accounted for as deductions to sales in the period to which sales relate. Accumulated historical experience of the Group indicates that the share of goods returned is insignificant and that the most returns relate to chilled poultry and pork meat with a return period of less than 10 days.

Therefore, the Group does not recognise any liability related to customers' right to return products within the return period and does not recognise an asset related to the right to recover the product from the customer where the customer is expected to exercise his/her right of return.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Government grants

In accordance with Russian legislation, enterprises engaged in agricultural activities receive certain government grants. Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

The largest of such government grants relate to the reimbursement of interest expense on qualifying loans, which is received directly by the Group ("interest subsidies") and for the reimbursement of interest expense through accredited banks, who provide loans to agricultural producers at reduced rates not exceeding 5% per annum on Rouble-denominated loans ("reduced rate lending subsidy"). the difference between market rate and the reduced

rate equals the Key rate of the Bank of Russia ("the Key rate") and is compensated by the Ministry of Agriculture to the accredited banks. If Ministry of Agriculture will not compensate the interest expense accrued during the interest period (typically month or quarter) due to lack of available funds or due to any other reason, than the bank can unilaterally increase the interest rate payable by the Group by the Key rate. The Group records interest and reduced rate lending subsidies as an offset to interest expense during the period to which they relate.

The Group also receives government grants based on square of cultivated land and volumes of meat or eggs produced and fodder purchased. These grants are less systematic and therefore in general the Group recognizes them only when receives the grant or it is highly probable that the grant will be received. These grants are recorded as reductions to cost of sales during the period to which they relate.

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 was 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.

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2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

For contracts concluded after 1 January 2019, the Group assesses whether a contract is or contains a lease at inception of a contract. the Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease agreements (including sub-lease), which conveys the right to control the use of identified assets for a period of time in exchange for consideration, except for short-term leases (with lease term of 12 months or less) and leases of low-value assets. For these leases, the Group recognises the lease payments as operating expense on a straight-line basis over the term of the lease.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. Right-of-use assets are depreciated on a straight-line basis over the lease term within the range from 1 to 7 years.

The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications and remeasurements, amongst others. Variable lease payments that do not depend on an index or a rate are not included in the measurement of the lease liability and are recognised in profit or loss.

Cash and cash equivalents

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

Provisions

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

Share capital

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

Treasury shares

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

Dividends

Dividends are recognized as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date by the shareholders at a general meeting. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorized for issue.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

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

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. At the reporting dates, the Group had only financial assets classified as those to be measured at amortised cost, except for the rights to claim debt, which were classified as financial assets measured subsequently at fair value through profit or loss (FVTPL).

Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is

the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

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

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

Financial assets at FVTPL

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset (Note 33).

Impairment of financial assets

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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.

Changes in accounting policy

Starting from 1 January 2019 the Group has changed its accounting policy in relation to the presentation of general and administrative expenses incurred in production sites and related to production (property tax, payroll costs of site managers and certain other types of expenses). Pursuant to the Group's revised policy, the Group now presents such expenses in "Cost of sales" line in the statement of consolidated profit or loss and other comprehensive income. Prior to this change, they were presented in "Selling, general and administrative expenses". Management believes that the changed presentation better reflects the substance of the reclassified expenses and therefore enhances the quality of the consolidated financial statements by providing more relevant information about the Group's financial performance.

Starting from 1 January 2019 the Group has also changed its accounting policy in relation to the presentation of other sales related to non-core activities of the Group (rent income, grain elevator services, sales of by-products and others) and related cost of sales. Pursuant to the Group's revised policy, the Group now presents such other sales and related cost of sales within "Other operating income, net" line in the statement of profit or loss and other comprehensive income. Prior to this change, other sales were presented in "Revenue" and related cost of sales were presented in "Cost of sales". Management believes that these activities are not principal to the Group and therefore

the changed presentation provides a better split between core and non-core activities of the Group, which enhances the transparency of the consolidated financial statements by providing more relevant information about the Group's financial performance.

The Group has retrospectively applied the new accounting policy and, therefore, comparative information has been retrospectively restated. The effect of the changes in accounting policy on the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018 was as follows:

Year ended 31 December 2018	As previously reported	Effect of the change in accounting policy for expenses classification	Effect of the change in accounting policy for presentation of other sales	As restated
Revenue	102,639	-	(2,217)	100,422
Cost of sales	(74,794)	(2,316)	1,792	(75,318)
Gross profit	31,923	(2,316)	(425)	29,182
Selling, general and administrative expenses	(16,550)	2,316	-	(14,234)
Other operating income, net	239	-	425	664
Operating profit	15,555	-	-	15,555

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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 2019. The impact of the adoption of IFRS 16 Leases on the Group's results of operations and financial position is described below. The adoption of other standards and amendments did not have an impact on the Group's results of operations, financial position or cash flows.

IFRS 16 Leases

As at 1 January 2019, the Group adopted IFRS 16.

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 replaced IAS 17 Leases and all related interpretations.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions between operating leases (off balance sheet) and finance leases (on balance sheet) is 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.

Transition

According to the transition provisions of IFRS 16, the Group selected 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 did not restate comparative information for the previous period.

The Group made use of the following practical expedients:

- Permission to exclude from IFRS 16 scope leases for which the lease term ends within 12 months from 1 January 2019 and recognise the lease payments associated with those leases as an expense on a straight-line basis over the lease term;
- Relief from the requirement to reassess whether a contract is, or contains the lease;
- Application of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Use of assessment of whether leases are onerous applying IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, immediately before the date of initial application as an alternative to performing an impairment review;
- Permission to exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- Use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

Effect from the adoption

As a result of adoption of IFRS 16 the Group recognised right-of-use assets of 1,668 and lease liabilities of 1,308.

The result of the transition is represented as follows:

Future minimum lease payments at 31 December 2018 as disclosed in the consolidated financial statements for the year-ended 31 December 2018	3,268
Reassessment of options to extend and cancel lease contracts	(523)
Land lease rights with variable lease payments that do not depend on an index or a rate	(1,472)
Impact of discounting (weighted average borrowing rate 8.4%)	(220)
Add: finance lease liabilities as at 31 December 2018	255
Lease liabilities recognized at 1 January 2019	1,308
Future minimum lease payments at 31 December 2018 as disclosed in the consolidated financial statements for the year-ended 31 December 2018	3,268
Reassessment of options to extend and cancel lease contracts	(523)
Land lease rights with variable lease payments that do not depend on an index or a rate	(1,472)
Impact of discounting (weighted average borrowing rate 8.4%)	(220)
Transfer from property, plant and equipment	615
Right-of-use assets recognized at 1 January 2019	1,668
	2019
Increase in depreciation within Cost of sales and Selling, general and administrative expenses	(454)
Increase in Interest expenses, net	(121)
Decrease in rent expenses within Cost of sales and Selling, general and administrative expenses	476
Decrease in profit and total comprehensive income	(99)

The application of IFRS 16 has an impact on the consolidated statement of cash flows of the Group.

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3. NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS CONTINUED

Under IFRS 16, lessees must present:

- Short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability as part of operating activities;
- Cash paid for the interest portion of a lease liability as either operating activities or financing activities, as permitted by IAS 7 (the Group has opted to include interest paid as part of operating activities); and
- Cash payments for the principal portion for a lease liability, as part of financing activities.

- Under IAS 17, all lease payments on operating leases were presented as part of cash flows from operating activities. Consequently, the net cash generated by operating activities has increased by 420 being the lease payments, and net cash used in financing activities has increased by the same amount.

The adoption of IFRS 16 did not have an impact on net cash flows.

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 2020 or later periods and which the entity has not early adopted:

Standards and Interpretations	Effective for annual periods beginning on or after
IFRS 17 Insurance Contracts	1 January 2021
Amendments to IFRS 10 and IAS 28 – <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	Date to be determined by the IASB
Amendments to IFRS 3 – <i>Definition of a business</i>	January 2020
Annual Improvements to IFRSs (2010—2012 Cycle Amendments to IAS 1) – <i>Classification of Liabilities as Current or Non-Current</i>	1 January 2022
Amendments to IFRS 9, IAS 39 and IFRS 7 – <i>Interest Rate Benchmark Reform and its Effects on Financial Reporting</i>	1 January 2020
Amendments to IAS 1 and IAS 8 – <i>Definition of material</i>	1 January 2020
Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020

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

Amendments to IFRS 3 *Definition of a business*

The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

Additional guidance is provided that helps to determine whether a substantive process has been acquired.

The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets.

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2020, with early application permitted. The management of the Group plans to apply the amendments for the future transactions.

Amendments to IAS 1 and IAS 8 *Definition of material*

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. the concept of 'obscuring' material information with immaterial information has been included as part of the new definition.

The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.

The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term 'material' to ensure consistency.

The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application 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.

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3. NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS CONTINUED

Annual Improvements to IFRSs (2010—2012 Cycle Amendments to IAS 1) - *Classification of Liabilities as Current or Non-Current*

The amendments are intended to clarify that a liability is classified as non-current if an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the reporting period under an existing loan facility with the same lender, on the same or similar terms.

The amendment affect only the presentation of liabilities in the statement of financial position- not the amount or timing of recognition, or the information that entities disclose about those items.

The amendments clarify that the classification should be based on rights that are in existence at the end of the reporting period to defer settlement by at least twelve months and make explicit that only rights in place "at the end of the reporting period" should affect the classification of a liability.

The classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and are to be applied retrospectively. Earlier application is permitted.

The management of the Group does 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 34.

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 2019	Valuation technique	Unobservable inputs	Value of unobservable inputs	Relationship of unobservable inputs to fair value
Broilers	3,525	Discounted cash flows	Average weight of one broiler – kg	2.5	The higher the weight, the higher the fair value
			Poultry meat price – rubles	105.2	The higher the price, the higher the fair value
			Projected production costs – rubles per kg	75.2	The higher the costs, the lower the fair value
Breeders held for hatchery eggs production	3,224	Discounted cash flows	Number of hatchery eggs produced by one breeder	151	The higher the number, the higher the fair value
			Hatchery egg price – rubles	17.3	The higher the price, the higher the fair value
			Projected production costs of hatchery egg – rubles	8.3	The higher the costs, the lower the fair value
Sows	2,007	Discounted cash flows	Average number of piglets produced by one sow	35.1	The higher the number, the higher the fair value
			Market price of weaned piglet – rubles	1,763	The higher the price, the higher the fair value
			Discount rate	11.0%	The higher the discount rate, the lower the fair value
Market hogs	7,390	Discounted cash flows	Average weight of one market hog – kg	127.3	The higher the weight, the higher the fair value
			Pork meat price – rubles per kg	80.8	The higher the price, the higher the fair value
			Projected production costs – rubles per kg	60.4	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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4. KEY SOURCES OF ESTIMATION UNCERTAINTY CONTINUED

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) with the corresponding effect to the net change in fair value of biological assets line in profit or loss by the following amounts:

	31 December 2019		31 December 2019	
	Pork		Poultry	
	10% increase	10% decrease	10% increase	10% decrease
Expected selling prices	1,780	(1,775)	1,451	(1,451)
Projected production costs and costs to sell	(835)	830	(898)	896

Recoverable amount of Meat-processing cash-generating unit

During the year, as the result of the poor performance of Meat-processing cash-generating unit, the Group carried out a review of its recoverable amount. It was determined based on a value in use calculation, which uses cash flow projections based on management's estimations covering a five-year period.

The key assumptions used are set out below.

In percent	31 December 2019
Discount rate	11.6
Terminal value growth rate	4
Average annual increase in prices (average of next five years)	0.44

The model is sensitive to the changes in assumptions above as well as to the assumptions of sales volumes and gross margin levels. Fluctuations in these assumptions in the range from 0.5 p.p. to 1 p.p. (or from 0.5% to 1%) would result in the aggregate carrying amount of the cash-generating unit exceeding the recoverable amount of it by the amount in the range from 1,139 to 2,249.

The management believes that any reasonably possible change in the other assumptions on which recoverable amount is based would not cause the Meat-processing cash-generating unit's carrying amount to exceed its recoverable amount.

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 the 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.

Adjusted EBITDA is defined as profit for the period before income tax expense/benefit, interest income and interest expense, net, foreign exchange loss/gain, depreciation and amortisation expense, net change in fair value of biological assets, 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.

Starting from 1 January 2019, in the Segment information the Group changed the presentation of revenue from sales of meat-processing products produced from the Group's sows and related cost of sales. Previously, revenue from sales of products produced from the Group's sows was shown in sales of Meat-processing segment net of cost of sows purchased from Pork segment. After the change the Group shows such sales and related cost of sows on a gross basis in Sales and Cost of sales of Meat-processing segment, respectively, wherein this gross-up is eliminated in Intersegment column. the comparative information for the year ended 31 December 2018 has been retrospectively adjusted to reflect the change in presentation.

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5. OPERATING SEGMENTS CONTINUED

Segment information for the year ended at 31 December 2019 comprised:

	Meat-processing	Pork	Poultry	Grain
Total sales	40,056	24,478	70,332	5,758
including sales volume discounts	(872)	-	(773)	-
Intersegment sales	(31)	(20,948)	(1,820)	(3,545)
Sales to external customers *	40,025	3,530	68,512	2,213
Net change in fair value of biological assets	-	(1,244)	(135)	-
Net revaluation of harvested crops in stock	-	-	-	155
Cost of sales	(37,035)	(17,588)	(53,281)	(4,128)
Gross profit (loss)	3,021	5,646	16,916	1,785
Operating expense **	(5,033)	(440)	(7,581)	(274)
Share of (loss) profit of joint ventures and associates	(23)	-	15	-
Operating income (loss)	(2,035)	5,206	9,350	1,511
Other income (expense), net ***	502	50	216	23
Interest expense, net	(158)	(1,025)	(1,504)	(132)
Profit (loss) before income tax	(1,691)	4,231	8,062	1,402
Adjustments for:				
Interest expense, net	158	1,025	1,504	132
Interest income	(17)	(32)	(246)	(1)
Foreign exchange (gain) loss	(441)	(14)	41	(10)
Depreciation and amortisation expense	1,245	1,870	2,847	510
Net change in fair value of biological assets	-	1,244	135	-
Share of loss (profit) of joint ventures and associates	23	-	(15)	-
Share of adjusted EBITDA of joint ventures and associates ****	104	-	193	-
Bonuses to employees under long-term incentive program	11	40	41	3
Depreciation and amortisation accumulated in harvested crops in stock	-	-	-	94
Adjusted EBITDA	(608)	8,364	12,562	2,130
Supplemental information:				
Segment capital expenditure	1,337	2,798	1,859	1,109
Income tax expense (benefit)	(36)	(1)	22	15

* Included in total sales are revenues which arose from sales to the Group's two largest customers each contributing more than 10 per cent to the Group's revenue in 2019. No other single customer contributed 10 per cent or more to the Group's revenue in 2019.

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

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

**** Adjusted EBITDA of joint ventures and associates 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
40,321	180,945	-	(67,552)	113,393	6,716	120,109
-	(1,645)	-	-	(1,645)	(134)	(1,779)
(40,311)	(66,655)	-	66,801	146	(146)	-
10	114,290	-	(751)	113,539	6,570	120,109
-	(1,379)	-	-	(1,379)	-	(1,379)
-	155	-	(126)	29	-	29
(39,945)	(151,977)	-	67,090	(84,887)	(6,009)	(90,896)
376	27,744	-	(588)	27,156	707	27,863
(173)	(13,501)	(3,990)	653	(16,838)	(713)	(17,551)
-	(8)	-	-	(8)	(115)	(123)
203	14,235	(3,990)	65	10,310	(121)	10,189
386	1,177	183	(368)	992	-	992
(727)	(3,546)	(1,306)	368	(4,484)	-	(4,484)
(138)	11,866	(5,113)	65	6,818	(121)	6,697
727	3,546	1,306	(368)	4,484	-	4,484
(73)	(369)	(242)	368	(243)	-	(243)
(311)	(735)	59	-	(676)	-	(676)
725	7,197	618	-	7,815	3	7,818
-	1,379	-	-	1,379	-	1,379
-	8	-	-	8	115	123
-	297	-	-	297	439	736
7	102	103	-	205	-	205
-	94	-	-	94	-	94
937	23,385	(3,269)	65	20,181	436	20,617
719	7,822	730	-	8,552	-	8,552
40	40	6	-	46	-	46

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5. OPERATING SEGMENTS CONTINUED

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

	Meat-processing	Pork	Poultry	Grain
Total sales	38,780	23,262	52,723	6,899
including sales volume discounts	(682)	-	(709)	-
Intersegment sales	(1,027)	(20,238)	(1,594)	(3,945)
Sales to external customers *	37,753	3,024	51,129	2,954
Net change in fair value of biological assets	-	899	1,264	-
Net revaluation of harvested crops in stock	-	-	-	1,297
Cost of sales	(35,341)	(13,567)	(41,205)	(6,273)
Gross profit (loss)	3,439	10,594	12,782	1,923
Operating expense **	(3,916)	(179)	(5,379)	(205)
Share of loss of joint ventures and associates	-	-	-	-
Operating income (loss)	(477)	10,415	7,403	1,718
Other (expense) income, net ***	(452)	61	119	3
Interest expense, net	(122)	(588)	(621)	(173)
Profit (loss) before income tax	(1,051)	9,888	6,901	1,548
Adjustments for:				
Interest expense, net	122	588	621	173
Interest income	(20)	(64)	(172)	(2)
Foreign exchange loss (gain)	485	10	74	-
Depreciation and amortisation expense	883	1,339	2,055	809
Net change in fair value of biological assets	-	(899)	(1,264)	-
Share of loss of joint ventures and associates	-	-	-	-
Share of adjusted EBITDA of joint ventures and associates ****	-	-	-	-
Bonuses to employees under long-term incentive program	39	40	172	8
Depreciation and amortisation accumulated in harvested crops in stock	-	-	-	(273)
Adjusted EBITDA	458	10,902	8,387	2,263
Supplemental information:				
Segment capital expenditure	2,181	3,883	2,020	390
Income tax (benefit) expense	(375)	2	88	104

* Included in total sales are revenues which arose from sales to the Group's two largest customers each contributing more than 10 per cent to the Group's revenue in 2018. No other single customer contributed more than 10 per cent to the Group's revenue in 2018.

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

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

**** Adjusted EBITDA of joint ventures and associates 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
31,210	152,874	-	(58,267)	94,607	5,815	100,422
-	(1,391)	-	-	(1,391)	(82)	(1,473)
(31,210)	(58,014)	-	58,267	253	(253)	-
-	94,860	-	-	94,860	5,562	100,422
-	2,163	-	(327)	1,836	-	1,836
-	1,297	-	945	2,242	-	2,242
(30,703)	(127,089)	-	56,897	(70,192)	(5,126)	(75,318)
507	29,245	-	(752)	28,493	689	29,182
(170)	(9,849)	(3,505)	398	(12,956)	(614)	(13,570)
-	-	-	-	-	(57)	(57)
337	19,396	(3,505)	(354)	15,537	18	15,555
(221)	(490)	148	(153)	(495)	-	(495)
(870)	(2,374)	(1,046)	153	(3,267)	-	(3,267)
(754)	16,532	(4,403)	(354)	11,775	18	11,793
870	2,374	1,046	(153)	3,267	-	3,267
(55)	(313)	(130)	153	(290)	-	(290)
277	846	(17)	-	829	-	829
609	5,695	347	-	6,042	3	6,045
-	(2,163)	-	327	(1,836)	-	(1,836)
-	-	-	-	-	57	57
-	-	-	-	-	165	165
19	278	373	-	651	7	658
-	(273)	-	-	(273)	-	(273)
966	22,976	(2,784)	(27)	20,165	250	20,415
300	8,774	979	-	9,753	-	9,753
14	(167)	(20)	-	(187)	-	(187)

customer contributed 10 per cent or more to the Group's revenue in 2018.

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6. COST OF SALES

Cost of sales for the years ended 31 December 2019 and 2018 comprised:

	2019	2018
Raw materials and goods for resale	59,803	48,988
Personnel (excluding pension costs)	12,496	10,147
Depreciation	6,996	5,595
Utilities	4,260	3,956
Pension costs	2,563	2,042
Other	4,778	4,590
Total cost of sales	90,896	75,318

Raw materials and goods for resale include as an offset subsidies received from local governments in the amount of 37 and 48 for the years ended 31 December 2019 and 2018, respectively. These subsidies were received based on square of cultivated land and volumes of meat and eggs produced.

Depreciation includes an impairment loss recognized for non-operational items of property, plant and equipment in the amount of 531 and nil for the years ended 31 December 2019 and 2018, respectively (Note 12).

7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended 31 December 2019 and 2018 comprised:

	2019	2018
Personnel (excluding pension costs)	5,626	4,538
Transportation	3,374	2,684
Advertising and marketing	1,218	1,088
Penalties	897	390
Pension costs	834	741
Materials and supplies	831	592
Depreciation and amortisation	718	369
Security services	534	457
Taxes (other than income tax)	509	273
Information technology and communication services	368	277
Audit, consulting and legal fees	304	285
Utilities	210	218
Bonuses to employees under long-term incentive program ⁺	205	658
Insurance	155	153
Rent expenses	130	404
Change in expected credit losses and other write-off	129	118
Veterinary services	115	163
Repairs and maintenance	52	61
Bank charges	27	41
Other	1,205	724
Total selling, general and administrative expenses	17,441	14,234

⁺ 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.

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8. OTHER OPERATING (EXPENSES) INCOME, NET

Other operating (expenses) income, net for the years ended 31 December 2019 and 2018 comprised:

	2019	2018
Income from non-core activities of the Group	1,863	2,217
Expenses related to income from non-core activities, comprising:	(1,749)	(1,792)
Raw materials	(1,277)	(1,409)
Personnel (excluding pension costs)	(148)	(173)
Depreciation	(104)	(82)
Utilities	(53)	(37)
Pension costs	(32)	(35)
Other	(135)	(56)
(Loss) gain on disposal of property, plant and equipment, net	(164)	47
(Loss) gain on disposal of non-current biological assets, net	(60)	192
Other operating (expenses) income, net	(110)	664

9. INTEREST EXPENSE, NET

Interest expense, net for the years ended 31 December 2019 and 2018 comprised:

	2019	2018
Interest on bank overdrafts and loans*	5,771	4,853
Interest on lease liabilities	121	41
Less: amounts included in the cost of qualifying assets	(95)	(290)
Total interest expense	5,797	4,604
Government grants for compensation of interest expenses accrued *	(1,648)	(1,519)
Government grants for compensation of interest expenses write-off	254	-
Less: amounts included in the cost of qualifying assets	81	182
Total government grants for compensation of interest expenses	(1,313)	(1,337)
Total interest expense, net	4,484	3,267

* 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 1,065 (2018: 537).

10. OTHER INCOME (EXPENSES), NET

Other income (expenses), net for the years ended 31 December 2019 and 2018 comprised:

	2019	2018
Foreign exchange gain (loss)	676	(829)
Other income, net	73	44
Total other income (expenses), net	749	(785)

11. 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 2019 and 2018 were as follows:

	2019	2018
Current tax expense	(160)	(201)
Deferred tax benefit	114	388
Total income tax (expense) benefit	(46)	187

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10. OTHER INCOME (EXPENSES), NET CONTINUED

The income tax expense can be reconciled to the theoretical tax provision at the statutory rate for the years ended 31 December 2019 and 2018 as follows:

	2019	2018
Profit before income tax	6,697	11,793
Profit before income tax of entities taxed at zero rates (agricultural entities)	8,706	13,861
Profit before income tax of entities taxed at 10% (other tax regimes)	120	281
Loss before income tax of generally taxed entities	(2,129)	(2,349)
Statutory income tax rate (agricultural entities)	0%	0%
Statutory income tax rate (other tax regimes)	10%	10%
Statutory income tax rate (general)	20%	20%
Theoretical income tax benefit at the statutory tax rates	(414)	(442)
Expenses not deductible for Russian statutory taxation purposes	255	186
Additional income tax accrued for prior years	134	43
Other	71	26
Income tax expense (benefit)	46	(187)

The following amounts, determined after appropriate offsetting, are presented in the consolidated statement of financial position as of 31 December 2019 and 2018:

	31 December 2019	31 December 2018
Deferred tax asset	1,214	1,073
Deferred tax liability	(1,023)	(996)
Net deferred tax asset	191	77

The movement in the net deferred tax asset for the year ended 31 December 2019 comprised:

	31 December 2018	Recognised in profit or loss	31 December 2019
Property, plant and equipment and investment property	(1,274)	(107)	(1,381)
Trade receivables	(66)	19	(47)
Other assets and liabilities	16	87	103
Tax loss carry forward	1,401	115	1,516
Net deferred tax asset	77	114	191

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

	1 January 2018	Recognised in profit or loss	31 December 2018
Property, plant and equipment and investment property	(1,267)	(7)	(1,274)
Trade receivables	(77)	11	(66)
Other assets and liabilities	39	(23)	16
Tax loss carry forward	994	407	1,401
Net deferred tax asset (liability)	(311)	388	77

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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12. PROPERTY, PLANT AND EQUIPMENT

The following table represents movements in property, plant and equipment for the years ended 31 December 2019 and 2018:

	Land and land lease rights	Buildings, infrastructure and leasehold improvements	Machinery and equipment
Cost			
Balance as at 1 January 2018	7,627	50,347	28,999
Additions	98	6,420	5,450
Acquisitions of subsidiaries (Note 33)	39	3,362	1,253
Disposals	(164)	(207)	(767)
As at 31 December 2018	7,600	59,922	34,935
Additions	305	3,495	3,854
Acquisitions of subsidiaries (Note 33)	-	1,402	2
Transferred to right-of-use assets	(433)	(497)	(262)
Disposals	(123)	(699)	(955)
As at 31 December 2019	7,349	63,623	37,574
Accumulated depreciation			
Balance as at 1 January 2018	(15)	(10,918)	(13,714)
Depreciation charge	(20)	(2,015)	(2,808)
Eliminated on disposals	-	114	718
As at 31 December 2018	(35)	(12,819)	(15,804)
Depreciation charge *	-	(2,809)	(3,307)
Transferred to right-of-use assets	35	457	138
Eliminated on disposals	-	652	855
As at 31 December 2019	-	(14,519)	(18,118)
Carrying amounts			
At 31 December 2018	7,565	47,103	19,131
At 31 December 2019	7,349	49,104	19,456

* Depreciation charge includes 531 of impairment loss recognized through accelerated depreciation for non-operational assets.

Vehicles	Other	Construction in progress	Total
5,424	289	10,301	102,987
867	50	(4,694)	8,191
153	-	18	4,825
(118)	(25)	(17)	(1,298)
6,326	314	5,608	114,705
1,231	121	(1,957)	7,049
1	-	-	1,405
(138)	-	-	(1,330)
(559)	(45)	(238)	(2,619)
6,861	390	3,413	119,210
(2,824)	(196)	-	(27,667)
(702)	(53)	-	(5,598)
97	24	-	953
(3,429)	(225)	-	(32,312)
(888)	(68)	-	(7,072)
85	-	-	715
533	41	-	2,081
(3,699)	(252)	-	(36,588)
2,897	89	5,608	82,393
3,162	138	3,413	82,622

Net book values of buildings, infrastructure and leasehold improvements include 40 of leased buildings and infrastructure as of 31 December 2018. Net book values of vehicles and machinery and equipment include 177 of leased equipment as of 31 December 2018.

Advances paid for acquisition and construction of property, plant and equipment are included in construction in progress in the amount of 425 and 532 as at 31 December 2019 and 2018, respectively.

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13. 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 2019 and 2018 were as follows:

	Land	Buildings	Total
Cost			
Balance as at 1 January 2018	275	386	661
Reconstruction and modernisation	-	17	17
As at 31 December 2018	275	403	678
Reconstruction and modernisation	-	82	82
As at 31 December 2019	275	485	760
Accumulated depreciation			
Balance as at 1 January 2018	-	(71)	(71)
Depreciation charge	-	(12)	(12)
As at 31 December 2018	-	(83)	(83)
Depreciation charge	-	(13)	(13)
As at 31 December 2019	-	(96)	(96)
Carrying amounts			
At 31 December 2018	275	320	595
At 31 December 2019	275	389	664

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 (Level 3 of fair value hierarchy). The management anticipates that the fair value did not materially change in subsequent years.

The Group recognised the following amounts in respect of the investment property in profit or loss:

	2019	2018
Rental income from investment property	197	193
Direct operating expenses arising from investment property that generated rental income during the year	(210)	(196)
Operating loss from investment property	(13)	(3)

14. RIGHT-OF-USE ASSETS

For the year ended 31 December 2019 the movement of right-of-use assets was as follows:

	Land	Buildings, infrastructure and leasehold improvements	Machinery and equipment	Vehicles	Total
Cost at 1 January 2019	518	771	326	53	1,668
Depreciation	(42)	(297)	(75)	(40)	(454)
New lease contracts and modification of existing lease contracts	185	41	44	109	379
New lease contracts arose from acquisition	10	-	-	-	10
Transfer to property, plant and equipment, net	-	-	-	(36)	(36)
Cost at 31 December 2019	713	812	370	126	2,021
Accumulated depreciation as at 31 December 2019	(42)	(297)	(75)	(40)	(454)
Carrying amount at 31 December 2019	671	515	295	86	1,567

15. 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:

	2019	2018
Meat-processing	250	250
Poultry	680	680
Grain	698	698
Total goodwill	1,628	1,628

The recoverable amount of 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 and 11% discount rate. 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.

Key inputs in determination of the recoverable amount of Meat-processing cash-generating unit together with sensitivity to reasonably possible changes in those inputs are disclosed in Note 4.

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16. INTANGIBLE ASSETS

The following table represents movements of intangible assets for the years ended 31 December 2019 and 2018:

	Computer software	Indefinite life trademarks	Other intangible assets	Total
Cost				
Balance at 1 January 2018	1,450	1,216	166	2,832
Additions	410	-	7	417
Balance at 31 December 2018	1,860	1,216	173	3,249
Additions	494	-	10	504
Balance at 31 December 2019	2,354	1,216	183	3,753
Accumulated amortisation				
Balance at 1 January 2018	(705)	-	(111)	(816)
Amortisation expense	(278)	-	(11)	(289)
Balance at 31 December 2018	(983)	-	(122)	(1,105)
Amortisation expense	(304)	-	(9)	(313)
Balance at 31 December 2019	(1,287)	-	(131)	(1,418)
Carrying amounts				
At 31 December 2018	877	1,216	51	2,144
At 31 December 2019	1,067	1,216	52	2,335

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 745 as of 31 December 2019 and 2018.

As of 31 December 2019 and 2018, 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 2019	31 December 2018
Discount rate	16.0%	18.1%
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 436 as of 31 December 2019 and 2018.

As of 31 December 2019 and 2018, 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.

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17. BIOLOGICAL ASSETS

Non-current biological assets

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

	31 December 2019		31 December 2018	
	Units	Carrying amount	Units	Carrying amount
Sows, heads	107,888	2,007	100,903	2,638
Cattle, heads	-	-	510	35
Total bearer non-current biological assets	107,888	2,007	101,413	2,673

The following table represents movements in sows:

	Amount
Balance at 1 January 2018	2,259
Increase due to purchases and breeding costs of growing livestock	944
Decrease due to sale	(993)
Gain arising from changes in fair value less estimated point-of-sales costs	428
Balance at 31 December 2018	2,638
Increase due to purchases and breeding costs of growing livestock	1,307
Decrease due to sale	(834)
Loss arising from changes in fair value less estimated point-of-sales costs	(1,104)
Balance at 31 December 2019	2,007

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 2019		31 December 2018	
	Units	Carrying amount	Units	Carrying amount
Pork				
Market hogs, heads	1,277,298	7,390	1,130,928	7,628
	1,277,298	7,390	1,130,928	7,628
Poultry				
Broilers, heads	36,510,440	3,525	32,859,688	2,910
Breeders, heads (bearer biological assets)	3,576,183	3,224	2,884,976	3,094
	40,086,623	6,749	35,744,664	6,004
Hatchery eggs, quantity	25,327,958	400	23,257,939	345
Other	-	-	435	16
Unharvested crops, hectares	59,005	838	59,555	783
Work-in progress related to cultivation of crops		910		619
Total current biological assets and related work-in progress		16,287		15,395

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17. BIOLOGICAL ASSETS CONTINUED

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

	Pork	Broilers	Breeders	Unharvested crops and related WIP	Total
Balance at 1 January 2018	6,101	1,928	1,969	1,286	11,284
Increase due to purchases and gain arising from cost inputs	13,909	39,310	1,770	2,528	57,517
Increase due to acquisition of subsidiaries	-	205	589	-	794
Transfer to consumable biological assets	-	1,572	(1,572)	-	-
Decrease due to sale or harvest of assets	(23,262)	(47,700)	-	(4,736)	(75,698)
Gain arising from changes in fair value less estimated point-of-sales costs	10,880	7,595	338	2,324	21,137
Balance at 31 December 2018	7,628	2,910	3,094	1,402	15,034
Increase due to purchases and gain arising from cost inputs	18,163	49,668	2,571	4,856	75,258
Increase due to acquisition of subsidiaries	-	-	356	-	356
Transfer to consumable biological assets	-	2,364	(2,364)	-	-
Decrease due to sale or harvest of assets	(24,478)	(60,597)	-	(6,075)	(91,150)
Gain (loss) arising from changes in fair value less estimated point-of-sales costs	6,077	9,180	(433)	1,565	16,389
Balance at 31 December 2019	7,390	3,525	3,224	1,748	15,887

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

	2019	2018
Fair value adjustment at the beginning of the year (biological assets transferred to inventory and subsequently sold)	(6,583)	(4,457)
Fair value adjustment at the date of acquisition of subsidiaries (biological assets transferred to inventory and subsequently sold)	-	(290)
Fair value adjustment at the end of the year (biological assets)	5,204	6,583
Net change in fair value of biological assets	(1,379)	1,836

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

	2019	2018
Fair value adjustment at the beginning of the year (agricultural produce subsequently sold)	(1,128)	1,114
Fair value adjustment at the end of the year (agricultural produce)	1,157	1,128
Net revaluation of harvested crops in stock	29	2,242

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

	2019	2018
Winter wheat	230	235
Spring wheat	125	73
Corn	99	61
Sunflower	84	65
Soybean	46	33
Barley	41	34
Peas	12	17

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

	2019	2018
Pork meat	284	247
Poultry meat	663	544

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

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18. 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 2019	31 December 2018
LLC Tambovskaya Indeika (Tambov Turkey JV)	Joint venture	50%	3,266	2,987
Samson – Food Products	Associate	75%	327	350
LLC COBB-RUSSIA	Joint venture	50%	196	181
Total investments in joint ventures and associates			3,789	3,518

Tambov Turkey JV

During the year ended 31 December 2012 the Group, together with Grupo Corporativo Fuertes, S.L., established a joint venture, LLC Tambovskaya Indeika. The joint venture's primary business is breeding of turkey. The joint venture started construction of an integrated full cycle turkey production complex in 2013 and started operations in November 2016.

Summarised financial information in respect of the Group's joint venture and its reconciliation to the carrying amount of the interest in the joint venture are set out below. The summarised financial information below represents amounts shown in the joint venture's financial statements prepared in accordance with IFRSs adjusted by the Group for equity accounting purposes.

	31 December 2019	31 December 2018
Cash and cash equivalents	145	4
Other current assets	2,460	3,121
Non-current assets	8,334	7,876
Trade and other payables	(641)	(546)
Short-term borrowings	(1,643)	(1,720)
Other current liabilities	(72)	(136)
Long-term borrowings	(1,937)	(3,531)
Other non-current liabilities	(114)	(93)
Net assets of the joint venture	6,532	4,975
Proportion of the Group's ownership interest in the joint venture	50%	50%
The Group's equity interest in the joint venture	3,266	2,487
Notes receivable classified as net investment in the joint venture ⁺	-	500
Carrying amount of the Group's interest in the joint venture	3,266	2,987

⁺ 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 completed 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.

	2019	2018
Revenue	6,310	5,331
Operating expenses without depreciation and amortisation, foreign exchange loss (gain), net change in fair value of biological assets	(5,432)	(5,000)
Adjusted EBITDA	878	331
Depreciation and amortisation	(620)	(624)
Interest income	16	-
Interest expense	(150)	(202)
Foreign exchange loss (gain)	32	(38)
Net change in fair value of biological assets	(379)	420
Income tax	(7)	(1)
Loss for the year and total comprehensive loss for the year	(230)	(114)
Proportion of the Group's ownership interest in the joint venture	50%	50%
The Group's share of Adjusted EBITDA	439	165
The Group's share of loss of the joint venture	(115)	(57)

As of 31 December 2019, 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 Vsevolzhskiy" and LLC "Svezhyi Product" (together "Samson – Food Products") for cash consideration of 350 payable at the acquisition date and contingent consideration payable within two years after the acquisition. The contingent consideration depends on performance of Samson – Food Products in 2019 and based on the performance of the associate in 2019 was estimated as zero. 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.

Samson – Food Products is a meat-processing group of companies located in the North-West region and offering meat products under such brands as Samson, Grillmania, Fileya and others.

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.

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18. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES CONTINUED

	31 December 2019	31 December 2018 *
Cash and cash equivalents	154	1
Other current assets	551	254
Goodwill	388	388
Property, plant and equipment	501	508
Other non-current assets	503	542
Trade and other payables	(628)	(541)
Short-term borrowings	(856)	(552)
Other current liabilities	(30)	(63)
Long-term borrowings	(147)	(70)
Net assets of the associate	436	467
Proportion of the Group's ownership interest in the associate	75%	75%
Carrying amount of the Group's interest in the associate	327	350
		2019
Revenue		4,700
Operating expenses without depreciation and amortisation, foreign exchange loss (gain), net change in fair value of biological assets		(4,562)
Adjusted EBITDA		138
Depreciation and amortisation		(99)
Interest income		2
Interest expense		(89)
Foreign exchange loss		4
Income tax		13
Loss for the year and total comprehensive loss for the year		(31)
Proportion of the Group's ownership interest in the joint venture		75%
The Group's share of Adjusted EBITDA		104
The Group's share of loss of the associate		(23)

* Comparative information for the year ended 31 December 2018 has been retrospectively adjusted for the finalization of the allocation of the purchase price of the associate acquired.

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.

19. LONG-TERM DEPOSITS IN BANKS

	CCY	Effective rate, %	Maturity	31 December 2019	31 December 2018
Deposits in Gazprombank	RUR	8%	2022	641	641
Total long-term deposits in banks				641	641

20. INVENTORIES

	31 December 2019	31 December 2018
Raw materials	9,544	8,971
Spare parts	830	899
Work in-progress	418	461
Finished goods	2,431	2,098
Total inventory	13,223	12,429

21. TAXES RECOVERABLE AND PREPAID

	31 December 2019	31 December 2018
Value added tax	1,209	1,399
Income tax prepaid	608	365
Other taxes	579	145
Total tax recoverable and prepaid	2,396	1,909

22. TRADE RECEIVABLES, NET

	31 December 2019	31 December 2018
Trade receivables	5,659	5,852
Less: allowance for expected credit losses	(183)	(119)
Total trade receivables, net	5,476	5,733

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22* TRADE RECEIVABLES, NET CONTINUED

The following table summarizes the changes in the allowance for expected credit losses for the years ended 31 December 2019 and 2018:

	2019	2018
Balance at beginning of the year	119	86
Additional allowance, recognized during the year	101	59
Trade receivables written off during the year	(37)	(26)
Balance at end of the year	183	119

23. OTHER RECEIVABLES, NET

	31 December 2019	31 December 2018
Subsidies receivable for interest expense reimbursement	31	985
Subsidies receivable for compensation of capital expenditure *	-	200
Subsidies receivable for purchase of fodder	-	15
Other receivables	292	455
Less: allowance for expected credit losses	(124)	(132)
Total other receivables, net	199	1,523

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

The following table summarizes the changes in the allowance for expected credit losses for the years ended 31 December 2019 and 2018:

	2019	2018
Balance at beginning of the year	132	120
Additional allowance, recognized during the year	-	56
Other receivables written off during the year	(8)	(44)
Balance at end of the year	124	132

24. CASH AND CASH EQUIVALENTS

	31 December 2019	31 December 2018
RUR-denominated cash at banks	771	773
USD-denominated cash at banks	18	77
Bank deposits	2,513	8,759
Cash in hand	2	4
Total	3,304	9,613

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

25. OTHER CURRENT ASSETS

	31 December 2019	31 December 2018
Prepaid expenses	252	179
Notes receivable	-	310
Loans receivable	48	46
Other assets	28	28
Total other current assets	328	563

26. SHAREHOLDER'S EQUITY

Share capital

As of 31 December 2019 and 2018, 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.

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 March 2019 and September 2019 dividends of approximately 101.63 Russian rubles per share (4,173 in total) and approximately 48.79 Russian rubles per share (2,003 in total) were approved at the extraordinary shareholders' meeting and have been fully paid during the year ended 31 December 2019.

On February 2018 and September 2018 dividends of approximately 75.07 Russian rubles per share (3,081 in total) and approximately 20.48 Russian rubles per share (841 in total) were approved at the extraordinary shareholders' meeting and have been fully paid during the year ended 31 December 2018.

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27. NON-CONTROLLING INTERESTS

	NCI percentage	31 December 2019	31 December 2018
JSC Petelinskaya	11.8%	142	468
LLC PKO Otechestvennyi Product	4.0%	215	209
LLC Cherkizovo trade house	11.8%	307	23
Other non-controlling interests		215	290
Total non-controlling interests		879	990

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 2019 and for 2019	JSC Petelinskaya	LLC PKO Otechestvennyi Product	LLC Cherkizovo trade house	Total
NCI percentage	11.8%	4.0%	11.8%	
Non-current assets	1,782	311	1,267	3,360
Current assets	1,606	5,412	12,796	19,814
Non-current liabilities	-	(101)	(266)	(367)
Current liabilities	(2,184)	(194)	(11,193)	(13,571)
Net assets	1,204	5,428	2,604	9,236
Carrying amount of NCI	142	215	307	664
Revenue	6,694	2,067	95,267	104,028
(Loss) profit	341	156	(695)	(198)
Total comprehensive (loss) income	341	156	(695)	(198)
(Loss) profit allocated to NCI	40	6	(82)	(36)
Cash flows from operating activities	(805)	175	(1,607)	(2,237)
Cash flows from investment activities	345	(20)	2,465	2,790
Cash flows from financing activities (dividends to NCI: nil)	460	1	209	670
Net increase in cash and cash equivalents	-	156	1,067	1,223

As at 31 December 2018 and for 2018	JSC Petelinskaya	LLC PKO Otechestvennyi Product	LLC Cherkizovo trade house	Total
NCI percentage	11.8%	4.0%	11.8%	
Non-current assets	2,289	379	1,148	3,816
Current assets	3,675	5,320	12,594	21,589
Non-current liabilities	-	(19)	(245)	(264)
Current liabilities	(2,001)	(408)	(13,298)	(15,707)
Net assets	3,962	5,272	199	9,434
Carrying amount of NCI	468	209	23	700
Revenue	6,946	2,736	62,068	71,750
Profit (loss)	714	230	(252)	692
Total comprehensive income (loss)	714	230	(252)	692
Profit (loss) allocated to NCI	84	9	(30)	63
Cash flows from operating activities	(600)	29	973	402
Cash flows from investment activities	760	(45)	616	1,331
Cash flows from financing activities (dividends to NCI: nil)	(160)	-	-	(160)
Net increase (decrease) in cash and cash equivalents	-	(16)	1,589	1,573

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28. 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 31. Terms and conditions of outstanding loans were as follows:

	Nominal interest rate	EIR ¹	Adjusted EIR ²	Year of maturity	31 December 2019		31 December 2018	
					Current	Non-current	Current	Non-current
Bonds	7.50%-12.50%	9.17%	9.17%	2020-2023	5,000	10,000	-	5,000
Bank loans	1.17%-12.50%	6.54%	5.57%	2020-2026	15,442	33,100	23,708	39,471
Other borrowings	7.00%	7.00%	7.00%	2029	-	82	-	7
Interest payable					348	-	372	-
Finance lease liabilities [*]	n/a	n/a	n/a	n/a	-	-	90	165
Total borrowings					20,790	43,182	24,170	44,643

^{*} Following the adoption of IFRS 16 (Note 3), finance lease liabilities as at 31 December 2019 were reclassified to long-term lease liabilities and short-term lease liabilities of the consolidated statement of financial position as at 31 December 2019.

As of 31 December 2019, the Group's borrowings are denominated in the following currencies: 61,966 in Russian rubles and

2,006 in Euro. As of 31 December 2018, the Group's borrowings are denominated in the following currencies: 66,418 in Russian rubles and 2,395 in Euro.

Interest on the majority of borrowings is paid on a monthly or quarterly basis, with the exception of bonds, for which the interest is paid on a semi-annual basis.

Bonds

Bonds due in October 2020

In October 2015, the Group placed 5,000,000 bonds in rubles at par value (1,000 rubles at the issuance date) with a maturity date in October 2020. The coupon rate on the bonds, payable semi-annually, is set at 12.5% per annum. The Group accounts for these instruments at amortized cost.

Bonds due in May 2023

In November 2019, the Group placed 10,000,000 bonds in rubles at par value (1,000 rubles at the issuance date) with a maturity date in May 2023. The coupon rate on the bonds, payable semi-annually, is set at 7.5% 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 9 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 2019	31 December 2018
Sberbank of Russia	Russian roubles	1.40% [*] -10.80%	2020-2024	12,394	22,348
Sberbank of Russia	Euro	3.40%	2024	2,006	2,299
Alfa bank	Russian roubles	1.17% ^{**} -9.10%	2020-2026	4,476	10,695
Bank VTB	Russian roubles	1.60% ^{**} -9.20%	2020-2024	7,012	9,645
Gazprombank	Russian roubles	1.40% ^{**} -8.99%	2020-2022	4,982	6,617
Gazprombank	Euro	n/a	n/a	-	96
Raiffeisenbank	Russian roubles	6.31%	2020	5,985	5,986
Rosselkhozbank	Russian roubles	1.40% [*] -10.31%	2020-2023	7,310	5,456
UniCredit Bank	Russian roubles	6.91%-12.50%	2021-2022	4,377	37
Total bank loans				48,542	63,179

^{*} Low interest rates relate to subsidized borrowings under new government policy effective since 2017 (Note 9).

Unused lines of credit

The total amount of unused credit on lines of credit as of 31 December 2019 is 75,542. The unused credit can be utilized from 2020 to 2026 with expiration of available amounts varying as follows: 29,295 expires by 31 December 2020, 10,832 expires by 31 December 2021, 27,215 expires by 31 December 2022, 500 expires by 31 December 2024 and 7,700 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 2019:

	31 December 2019	31 December 2018
JSC Altaisky Broiler	100%	100%
LLC Cherkizovo Pork	-	51%
CJSC Rovesnky Broiler	100%	-
JSC Kurinoe tsarstvo	-	100%
JSC Cherkizovo-Kashira	100%	100%

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28. BORROWINGS CONTINUED

Property, plant and equipment with a carrying value of 10,427 and 11,200 were pledged as security under loan agreements as of 31 December 2019 and 2018, respectively, including construction in progress pledged with a carrying value of nil and nil as of 31 December 2019 and 2018, respectively.

Notes receivable, net with a carrying value of nil and 310 were pledged as security under loan agreements as of 31 December 2019 and 2018, respectively.

Certain significant loan agreements with the Sberbank of Russia, Rosselkhozbank, Bank VTB, Gazprombank, UniCredit Bank, Raiffeisenbank and Alfa-bank contain financial covenants requiring

maintenance of specific debt to EBITDA, net debt to EBITDA, EBIT to Interest expense, debt service coverage and other ratios.

The Group was in compliance with all covenants as at 31 December 2019.

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.

	31 December 2018	Financing cash flows ^(b)	Non-cash changes					Interest accruals and payments	31 December 2019
			Restricted cash (used in investing activities)	Acquisition of subsidiaries (Note 33)	Effect of adoption of IFRS 16	Forex adjust- ments	Other non-cash changes		
Borrowings, including lease liabilities	68,813	(5,233)	(109)	290	1,344	(302)	372	(24)	65,151

	31 December 2017	Financing cash flows ^(b)	Non-cash changes					Interest accruals and payments	31 December 2018
			Restricted cash (used in investing activities)	Acquisition of subsidiaries (Note 33)	Acquisition of debt rights (Note 33)	Forex adjust- ments	Other non-cash changes		
Borrowings, including lease liabilities	50,015	14,001	(632)	338	4,685	419	32	(45)	68,813

^(b) Net amount of repayment of lease liabilities, proceeds from short-term and long-term borrowings and repayments of short-term and long-term borrowings in the consolidated statement of cash flows.

29. LEASE LIABILITIES

For the year ended 31 December 2019 the movement of lease liabilities was as follows:

Balance at 1 January 2019	1,308
Interest expense on lease liabilities	121
Lease payments	(541)
New leased contracts arose from acquisition	10
New lease contracts and modification of existing lease contracts	281
Balance at 31 December 2019	1,179

For the year ended 31 December 2019 lease expenses for leases with lease term of 12 months or less and leases of low-value assets amounted to 178 and lease expenses for variable lease payments not included in the measurement of lease liabilities amounted to 25.

30. TAX RELATED LIABILITIES

	31 December 2019	31 December 2018
Value added tax	617	758
Payroll related taxes	385	315
Property tax	261	145
Personal income tax withheld	52	92
Land tax	7	9
Transportation tax	2	5
Other taxes	3	1
Total tax related liabilities	1,327	1,325

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31. 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 33, as of 31 December 2019 and 2018 are as follows:

	31 December 2019		31 December 2018	
	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	310
Long-term deposits in banks	641	678	641	667
Other non-current assets	246	246	177	177
Trade receivables	5,476	5,476	5,733	5,733
Other receivables	199	199	1,523	1,523
Other current assets	76	76	75	75
Restricted cash	-	-	109	109
Cash and cash equivalents	3,304	3,304	9,613	9,613
	9,942	9,979	18,181	18,207
Financial liabilities not measured at fair value				
Amortised cost				
Borrowings (including finance lease liabilities as at 31 December 2018)	63,972	62,968	68,813	67,513
Lease liabilities	1,179	1,179	-	-
Trade payables	11,560	11,560	10,830	10,830
Payables for non-current assets	656	656	1,216	1,216
Payroll related liabilities	2,317	2,317	2,707	2,707
Other payables and accruals	237	237	905	905
	79,921	78,917	84,471	83,171

As at 31 December 2019 the Group used 7.84% for short-term agreements, 9.2% for medium-term agreements, 8.47% for long-term agreements (as at 31 December 2018: 9.8% was used for all periods) as market rate of cost of debt for the fair value estimation (for borrowings nominated in RUB). That rate excludes the effect of subsidies.

Fair value measurement of long-term deposits and borrowings was categorized into Level 3 as at 31 December 2019 and 2018.

Financial risk management

The main risks arising from the Group's financial instruments are capital risk management, interest rate risk, credit risk, liquidity risk and foreign currency risk.

The Group's management identifies measures and manages financial risks in accordance with the Group's policies and procedures.

Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to the equity holders. The capital structure of the Group consists of debt, cash and cash equivalents and equity, comprising issued capital, reserves and

retained earnings. The management of the Group reviews the capital structure on a regular basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital.

Credit risk

Credit risk refers to the risk that counterparty may default on its contractual obligations resulting in financial loss to the Group. Financial assets which potentially subject the Group to credit risk consist primarily of trade and other receivables, long-term deposits, notes receivable, rights to claim debt and cash in current and deposit accounts with banks.

The Group's maximum exposure to credit risk arises from the following classes of financial assets (except for the rights to claim debt that are separately disclosed in Note 33):

	31 December 2019	31 December 2018
Long-term deposits in banks	641	641
Notes receivable, net	-	310
Other non-current assets	246	177
Trade receivables	5,476	5,733
Other receivables	199	1,523
Other current assets	76	75
Restricted cash	-	109
Cash and cash equivalents (except for cash in hand)	3,302	9,609
Total maximum credit risk	9,940	18,177

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31. FINANCIAL INSTRUMENTS CONTINUED

Trade receivables

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

	31 December 2019	31 December 2018
Company 1	965	852
Company 2	544	838
Company 3	418	529
Company 4	372	494
Company 5	300	351
Other counterparties	2,877	2,669
Total	5,476	5,733

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.

For trade receivables the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the expected credit losses on these items by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. Accordingly, the credit risk profile of these assets is presented based on their past due status in terms of the provision matrix:

	Expected credit loss rate	31 December 2019	31 December 2018
Neither past due nor impaired	-	4,723	4,619
Past due 1-90 days	-	518	943
Past due 91-180 days	-	217	148
Past due 180-365 days	79%	87	69
Past due more than 365 days	100%	114	73
Total		5,659	5,852

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 2019, the amount of subsidies receivable outstanding more than one year was nil (at 31 December 2018: 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 2019	31 December 2018
Bank 1		BB-	2,669	-
Bank 2	Standard & Poor's	BB-	317	101
Bank 3	Moody's			
	Fitch Ratings	BB+	145	189
Bank 4	Standard & Poor's			
		BBB-	41	8,103
Other banks	-	-	130	1,216
Total cash and cash equivalents at banks			3,302	9,609

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

	Rating agency	Rating	31 December 2019	31 December 2018
Gazprombank	Fitch Ratings	BB+	641	641
Total long-term bank deposits			641	641

Liquidity risk

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

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31. FINANCIAL INSTRUMENTS CONTINUED

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 2018						
Trade and other receivables		7,256	-	-	-	7,256
Long-term deposits in banks	8%	26	26	761	-	813
Notes receivable, net	6.35%-7.39%	156	164	-	-	320
Other non-current assets		-	-	-	177	177
Other current assets		75	-	-	-	75
Total		7,513	190	761	177	8,641
At 31 December 2019						
Trade and other receivables		5,675	-	-	-	5,675
Long-term deposits in banks	8%	26	26	709	-	761
Other non-current assets		-	-	-	246	246
Other current assets		76	-	-	-	76
Total		5,777	26	709	246	6,758

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 2018						
Borrowings, including finance lease	5.2%-13.83%	9,108	19,645	41,417	10,808	80,978
Trade and other payables		11,736	-	-	-	11,736
Payables for non-current assets		1,216	-	-	-	1,216
Payroll related liabilities		2,707	-	-	-	2,707
Total		24,767	19,645	41,417	10,808	96,637
At 31 December 2019						
Borrowings	1.17%-12.5%	14,051	11,486	47,529	3,244	76,310
Finance lease obligations	5.32%-16.62%	255	255	720	294	1,524
Trade and other payables		11,797	-	-	-	11,797
Payables for non-current assets		656	-	-	-	656
Payroll related liabilities		2,317	-	-	-	2,317
Total		29,076	11,741	48,249	3,538	92,604

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 mostly with a fixed rate basis except for the subsidized borrowings obtained under new government policy effective from 2017 (Notes 9 and 28). the Group receives such borrowings from accredited banks 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 Ministry of Agriculture directly to the accredited bank. If Ministry of Agriculture will not continue to subsidize the interest on aforementioned

borrowings, then the Group will incur additional interest expenses increased by the Key Rate. For disclosure purposes only, the Group determined that if Ministry of Agriculture had not continued to subsidize the interest during 2019 and the Key rate had been 1% p.p. higher/lower and all other variables were held constant, the Group's profit and total comprehensive income for the year ended 31 December 2019 would decrease/increase by 1,065 (Note 9) and 108 (2018: decrease/increase by 537 and 64).

Foreign currency risk

The Group undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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31. FINANCIAL INSTRUMENTS CONTINUED

The table below summarizes the Group's exposure to foreign currency exchange rate risk at the reporting date relative to the functional currency of the Group.

	31 December 2019			31 December 2018		
	Financial assets	Financial liabilities	Net position	Financial assets	Financial liabilities	Net position
Hard currency (USD or Euro)	2,174	5,698	(3,524)	77	6,979	(6,902)

The table below details the Group's sensitivity to weakening of Russian Ruble against the respective foreign currencies by 20%, all other variables being held constant. The analysis was applied to monetary items at the reporting dates denominated in respective currencies.

	Hard currency – impact	
	31 December 2019	31 December 2018
Loss	(705)	(1,380)

The strengthening of the Russian Ruble in relation to the same currency by the same percentage will produce an equal and opposite effect on the consolidated financial statements of the Group to that shown above.

32. 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 2019 and 2018 were as follows:

	2019	2018
Salaries and bonuses, excluding social security contributions	681	550

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 Mikhailovskiy", an entity under common control.

Balances with companies under common control are summarized as follows:

Balances	31 December 2019	31 December 2018
Trade receivables	112	291
Other non-current assets	73	92
Advances paid	6	6
Other receivables	7	7
Closed unit investment fund (presented within other non-current assets)	495	494
Trade payables	3	25
Advances received	4	1

Transactions with companies under common control are summarized as follows:

Transactions	2019	2018
Sales	1,066	2,593
Rent income	187	208
Purchases of property, plant and equipment	9	14
Purchases of goods and other services	4	19

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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32. RELATED PARTIES CONTINUED

Balances with joint ventures are summarized as follows:

Balances	31 December 2019	31 December 2018
Trade receivables	67	84
Advances paid	40	-
Other receivables	3	-
Trade payables	848	1,057
Other payables	-	139

Transactions with joint ventures are summarized as follows:

Transactions	2019	2018
Sales	229	303
Purchases of goods and other services	6,626	5,936

Transactions with associate

The Group sells raw meat for meat-processing and finished goods to associate Samson – Food Products. Trade receivables are associated with such transactions. The Group expects to settle such balances in the normal course of business.

Balances with the associate are summarized as follows:

Balances	31 December 2019	31 December 2018
Trade receivables	76	-
Trade payables	8	-

Transactions with the associate are summarized as follows:

Transactions	2019	2018
Revenue	1,133	-

33. ACQUISITIONS

Acquisition of Rovensky Broiler

On 4 October 2019, the Group completed the acquisition of 100% of CJSC "Rovensky Broiler" for cash consideration of 1,664.

The acquired company is a hatching egg producer with production capacity of 80 million eggs/year, located in the Belgorod region, close to our existing operations. the acquisition will allow to cover the Group's needs in hatching eggs supply.

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	1,664
Property, plant and equipment	1,406
Inventories	26
Biological assets	356
Other current assets	197
Short-term loans and finance leases	(290)
Other current liabilities	(31)
Total assets acquired and liabilities assumed	1,664
Goodwill recognized on acquisition	-

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

Consideration payable to acquire Rovensky Broiler	1,664
Less: cash and cash equivalents of subsidiaries acquired	(196)
Net outflow of cash and cash equivalents on acquisition of Rovensky Broiler	1,468

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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33. ACQUISITIONS CONTINUED

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 2019 (unaudited)
Revenue	120,109
Operating profit	10,286
Profit for the year	6,843

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

Actual results of Rovensky Broiler from the date of acquisition (4 October 2019) to 31 December 2019	
Revenue	5
Operating income	90
Profit for the period	89

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.

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.

In the consolidated financial statements for the year ended 31 December 2018 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.

A third party valuation report on the fair value of the individual assets and liabilities was obtained in 2019. Accordingly, the Group completed the finalisation of the allocation of the purchase price of Altaisky Broiler in the consolidated financial statements for the year ended 31 December 2019 and adjusted comparative information for 2018 by changing the fair value of the following assets and liabilities at the acquisition date:

	Provisional values (as previously reported for the year ended 31 December 2018)	Fair values
Purchase price	4,588	4,588
Property, plant and equipment	3,989	3,616
Inventories and biological assets	533	533
Other current assets	676	676
Short-term loans and finance leases	(310)	(310)
Long-term loans and finance leases	(28)	(28)
Other current liabilities	(272)	(272)
Total assets acquired and liabilities assumed	4,588	4,215
Goodwill recognized on acquisition	-	373

The difference in depreciation charged for provisional values of property, plant and equipment and depreciation charged for their fair value was immaterial and therefore the Group did not adjust the consolidated results for the year ended 31 December 2018.

Goodwill arose in the acquisition of Altaisky Broiler because the consideration paid for the combination effectively included amounts in relation to the benefit of expected expansion of the Group to the regional markets.

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

Consideration payable to acquire Altaisky Broiler	4,588
Less: cash and cash equivalents of subsidiaries acquired	(560)
Less: consideration remained unpaid at 31 December 2018	(200)
Net outflow of cash and cash equivalents on acquisition of Altaisky Broiler	3,828

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 2018). In determining pro forma amounts, all non-recurring costs were determined to be immaterial.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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33. ACQUISITIONS CONTINUED

Pro forma Information	For the year ended 31 December 2018 (unaudited)
Revenue	107,440
Operating profit	15,994
Profit for the year	12,334

Acquisition of poultry breeder's facilities of Krasnoyarsky Broiler

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

In the consolidated financial statements for the year ended 31 December 2018 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.

In 2019, the Group received a third party valuation report on the fair value of the individual assets and liabilities of poultry breeder's facilities of Krasnoyarsky Broiler, which confirmed the preliminary allocation; accordingly, there were no adjustments to the provisional book values of assets and liabilities. Fair values of assets and liabilities of poultry breeder's facilities of Krasnoyarsky Broiler at the acquisition date are presented below:

	Provisional values (as previously reported for the year ended 31 December 2018)	Fair values
Purchase price	1,799	1,799
Property, plant and equipment	1,210	1,210
Biological assets (poultry breeders)	589	589
Total assets acquired and liabilities assumed	1,799	1,799
Goodwill recognized on acquisition	-	-

The acquired facilities were part of the legal entity CJSC "Krasnoyarskiy 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. 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 at 0% per annum during the first two years and 10% subsequently. the fair value of the loan at inception date was 4,685 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 relaunched 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.

In April 2019, the bankruptcy proceeding were initiated for LLC "Belaya Ptitsa Kursk", which are governed by an independent bankruptcy trustee. Management has considered probability of different results of procedure and developed a strategy to ensure positive outcome, resulting in transfer of legal title of collateral to the Group within 12-months period. However, laws and regulations affecting businesses in Russian Federation, including bankruptcy legislation, continue to change rapidly. These changes are characterized by different interpretations and arbitrary application by authorities. Such changes are outside of the Group control.

The Group classified these rights as financial assets at FVTPL. Management of the Group has reviewed all relevant facts and circumstances happened in 2019 that can affect the fair value of the rights and concluded that the fair value did not materially change since the acquisition date.

34. COMMITMENTS AND CONTINGENCIES

Legal

As of 31 December 2019 and 2018, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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34. COMMITMENTS AND CONTINGENCIES CONTINUED

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. At the reporting date, the Group is litigating the results of recent field tax audits of certain subsidiaries of the Group done by the regional tax authorities. Management is of the opinion that no material losses will be incurred as a result of these litigations and accordingly no provision has been made in these consolidated financial statements. Management estimates that the Group's possible exposure in relation to the aforementioned tax audits will not exceed 1% of the Group's profit for the year ended 31 December 2019.

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 2019 and 2018.

Capital commitments

Capital commitments by each operating segments are as follows:

	31 December 2019
<i>Commitments for the acquisition of property, plant and equipment</i>	
Meat-processing	351
Pork	113
Poultry	995
Feed	85
Total capital commitments	1,544

At 31 December 2019, the Group had capital projects in progress at LLC Cherkizovo Pork, JSC Kurinoe Tsarstvo, JSC Vasilievskay poultry farm, JSC CMPZ and LLC Lisko Broiler

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 2019 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.

35. SUBSEQUENT EVENTS

On 12 February 2020 the Board recommended that the General meeting of shareholders approve distribution of the Company's net profit following 2019 results in the form of the dividends in the amount of 60.92 rubles per ordinary share of the Company.

APPENDIX 1. ABOUT THE REPORT

Name of the report	Cherkizovo Group's annual report for 2019 "Cherkizovo Unites"
Reporting cycle	Annual, 1 January 2019 – 31 December 2019
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. 233
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	April 2019
Reporting boundaries	The report discloses information about the operations and performance of Cherkizovo Group
Verification of the reported information	Reliability of the RAS ⁺ accounting statements and IFRS ^{**} 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 2019 is already the second report that the Group prepared with reference to GRI Standards.

Comparing to the previous report the Company disclosed additional information, in particular, number of employees hired, financial assistance received from government, and weight of waste with a breakdown by disposal methods.

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 6 topic-specific disclosures, all available in the GRI content index.

The Company intends to continue improving its public reporting practices.

⁺ Auditor's report is available on the Company's website at <http://cherkizovo.com/company/information-disclosure/financial-statements/fin-statements/>

^{**} Auditor's report is available on the Company's website at <http://cherkizovo.com/investors/reports/financial/financial-msfo/>

APPENDIX 2. GRI CONTENT INDEX

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. 2	–
	102-2 Activities, brands, products, and services	About the Company, p. 8	–
	102-3 Location of headquarters	Contacts, p. 240	–
	102-4 Location of operations	About the Company, p. 34	–
	102-5 Ownership and legal form	About the Company, p. 2	–
	102-6 Markets served	About the Company, p. 8	–
	102-7 Scale of the organization	About the Company, p. 4 Business model, p. 54	–
	102-8 Information on employees and other workers	Our employees, p. 114	Breakdowns by gender, region and employment contract type are shown separately.
	102-9 Supply chain	Supply chain, p. 58	–
	102-10 Significant changes to the organization and its supply chain	About the Company, p. 19 Supply chain, p. 58 Message from the CEO, p. 42 Shareholder and investor highlights, p. 147	–
	102-12 External initiatives	Corporate governance, p. 126 Health, safety and environment, p. 119	–
	102-13 Membership of associations	About the Company, p. 3	–
	102-14 Statement from senior decision-maker	Message from the CEO, p. 42 Message from the Chairman, p. 38	–
	102-16 Values, principles, standards, and norms of behavior	About the Company, p. 2 Supply chain, p. 58	–
	102-18 Governance structure	Corporate governance, p. 128	–
	102-40 List of stakeholder groups	Sustainable development, p. 112	–
	102-45 Entities included in the consolidated financial statements	Financial statements, p. 148	–
	102-46 Defining report content and topic Boundaries	Appendix 1. About the report, p. 232	–
	102-48 Restatements of information	Financial statements, p. 148	Restatements of information are provided for the financials only.
102-49 Changes in reporting	Appendix 1. About the report, p. 232	–	
102-50 Reporting period	Appendix 1. About the report, p. 232	–	
102-51 Date of most recent report	Appendix 1. About the report, p. 232	–	
102-52 Reporting cycle	Appendix 1. About the report, p. 232	–	

APPENDIX 2. GRI CONTENT INDEX

GRI Standard	Disclosure	Report section	Omissions
GRI 102 General Disclosures 2016	102-53 Contact point for questions regarding the report	Contacts, p. 240	–
	102-54 Claims of reporting in accordance with the GRI Standards	Appendix 1. About the report, p. 232	–
	102-55 GRI content index	-	–
	102-56 External assurance	Appendix 1. About the report, p. 232	–
103 Management Approach 2016	103-1 Explanation of the material topic and its Boundary	Provided separately for each specific topic.	–
	103-2 The management approach and its components		
201 Economic Performance 2016	103-1 Explanation of the material topic and its Boundary	Financial performance overview, p. 90	–
	103-2 The management approach and its components		–
	201-1 Direct economic value generated and distributed		Economic value retained is not disclosed.
	201-3 Defined benefit plan obligations and other retirement plans	The Company does not have defined benefit plan obligations or other retirement plans.	–
	201-4 Financial assistance received from government	Financial performance overview, p. 90	–
202 Market Presence 2016	103-1 Explanation of the material topic and its Boundary	29% of the members of the Board of Directors are Russian citizens	–
	103-2 The management approach and its components	87% of the members of the Management Board are Russian citizens	–
	202-2 Proportion of senior management hired from the local community		–
204 Procurement Practices 2016	103-1 Explanation of the material topic and its Boundary	Supply chain, p. 58	–
	103-2 The management approach and its components		–
	204-1 Proportion of spending on local suppliers		–
206 Anti-competitive Behavior	103-1 Explanation of the material topic and its Boundary	In 2019, no legal actions for anti-competitive behavior, anti-trust, and monopoly practices were taken in relation to the Company.	–
	103-2 The management approach and its components		–
	206-1 Legal actions for anti-competitive behavior, anti-trust, and monopoly practices		–

GRI Standard	Disclosure	Report section	Omissions
302 Energy 2016	103-1 Explanation of the material topic and its Boundary	Environmental protection, p. 123	–
	103-2 The management approach and its components		–
	302-4 Reduction of energy consumption		Absolute value of the reduction is not disclosed, no breakdown by type of energy is provided.
306 Effluents and Waste 2016	103-1 Explanation of the material topic and its Boundary	Environmental protection, p.123	–
	103-2 The management approach and its components		–
	306-2 Waste by type and disposal method		No breakdown by waste type is provided.
401 Employment 2016	103-1 Explanation of the material topic and its Boundary	Our employees, p. 115	–
	103-2 The management approach and its components		–
	401-1 New employee hires and employee turnover		No breakdowns by gender, age and region are provided.
403 Occupational Health and Safety 2018	103-1 Explanation of the material topic and its Boundary	Occupational health and safety, p. 120	–
	103-2 The management approach and its components		–
	403-9 Work-related injuries		Data is provided only for the Company's employees. The rates of fatalities, highconsequence work-related injuries (excluding fatalities) and recordable work-related injuries, as well as the main types of workrelated injuries, the number of hours worked and work-related hazards remain undisclosed.
404 Training and Education 2016	103-1 Explanation of the material topic and its Boundary	Our employees, p. 116	–
	103-2 The management approach and its components		–
	404-2 Programs for upgrading employee skills and transition assistance programs		–
405 Diversity and Equal Opportunity 2016	103-1 Explanation of the material topic and its Boundary	Our employees, p. 114	–
	103-2 The management approach and its components		–
	405-1 Diversity of governance bodies and employees		Diversity of governance bodies is not disclosed.

APPENDIX 2. GRI CONTENT INDEX

GRI Standard	Disclosure	Report section	Omissions
408 Child Labor 2016	103-1 Explanation of the material topic and its Boundary	The Company operations do not use child labor.	Information on suppliers is not disclosed.
	103-2 The management approach and its components		
	408-1 Operations and suppliers at significant risk for incidents of child labor		
409 Forced or Compulsory Labor 2016	103-1 Explanation of the material topic and its Boundary	The Company operations do not use forced or compulsory labor.	Information on suppliers is not disclosed.
	103-2 The management approach and its components		
	409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labor		

APPENDIX 3. GLOSSARY

Animal Welfare is a standard for the humane treatment of farm animals and poultry, based on the following principles: freedom from hunger, thirst and malnutrition; freedom from fear and distress; freedom from physical and thermal discomfort; freedom from pain, injury and disease; and freedom to express normal patterns of behavior.

Compartmentalization is a method used to classify pig farms by biosafety standards. the Federal Service for Veterinary and Phytosanitary Surveillance of Russia (Rosselkhoz nadzor) 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 a systematic 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).

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.

Standard operating procedures are step-by-step instructions that help employees correctly perform complex, monotonous operations.

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

EMPLOYEE HEADCOUNT BY SEGMENT

	2017	2018	2019
Poultry	13,880	13,914	17,410
Pork	1,811	2,042	2,085
Meat Processing	4,521	4,298	4,598
Feed	1,178	1,091	1,144
Grain	1,375	1,420	1,620
Group = R&D Center + SSC	1,037	1,133	1,249
BIKOM Distribution Center	268	446	560
Trading Company	935	1,122	1,688
Total	25,005	25,466	30,355

EMPLOYEE HEADCOUNT BY REGION

	2017	2018	2019
Moscow	4,596	4,601	5,068
Penza Region	4,375	4,468	4,956
Moscow Region	3,297	3,462	3,750
Lipetsk Region	4,404	4,084	3,642
Voronezh Region	3,121	3,125	3,234
Kursk Region	980	994	2,692
Bryansk Region	2,047	2,192	1,800
Altai Territory	-	-	1,702
Belgorod Region	-	-	910
Tula Region	495	725	753
Tambov Region	485	495	505
Orel Region	332	334	318
Other	873	986	1,025
Total	25,005	25,466	30,355

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