PJSC Cherkizovo Group

Unaudited Condensed Consolidated Interim
Financial Statements
for the Six Months ended 30 June 2019

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PJSC CHERKIZOVO GROUP

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

Management is responsible for the preparation of the condensed consolidated interim financial statements that present fairly the consolidated financial position of PJSC Cherkizovo Group (the "Company") and its subsidiaries (collectively – the "Group") as at 30 June 2019, and the consolidated results of its operations, cash flows and changes in equity for the six months then ended, in compliance with International Accounting Standard ("IAS") 34, Interim Financial Reporting.

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

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IAS 34 are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- designing, implementing and maintaining an effective system of internal controls throughout the Group;
- maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the condensed consolidated interim financial statements of the Group comply with IAS 34;
- maintaining statutory accounting records in compliance with local legislation and accounting standards;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

The condensed consolidated interim financial statements of the Group for the six months ended 30 June 2019 were approved by Management on 22 August 2019.

On behalf of the Management:

Ludmila Mikhailova
Chief Financial Officer

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REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

To the Board of Directors and Shareholders of PJSC Cherkizovo Group

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of PJSC Cherkizovo Group and its subsidiaries (collectively – the "Group") as at 30 June 2019 and the related condensed consolidated interim statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six months then ended, and selected explanatory notes. Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review

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

Conclusion

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

Srbuhi Hakobyan,
Engagement partner

22 August 2019

The Entity: PJSC Cherkizovo Group

Primary State Registration Number: 1057748318473

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

Address: 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-regulated organization of auditors "Russian Union of auditors" (Association), ORNZ 11603080484.

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

For the six months ended 30 June 2019

(in millions of Russian rubles, unless otherwise indicated)

	Notes	Six months ended 30 June 2019	Six months ended 30 June 2018 (restated)*
Revenue	4	55 661	44 507
Net change in fair value of biological assets	11	2 248	6 065
Net revaluation of harvested crops in stock		(660)	945
Cost of sales	5	(42 632)	(34 936)
Gross profit		**14 617**	**16 581**
Selling, general and administrative expenses	6	(7 807)	(6 108)
Other operating (expenses) income, net	7	(140)	232
Share of loss of joint ventures and associates		(136)	(230)
Operating profit		**6 534**	**10 475**
Interest income		147	128
Interest expense, net	8	(2 065)	(1 639)
Other income (expenses), net	9	582	(256)
Profit before income tax		**5 198**	**8 708**
Income tax expense		(162)	(92)
Profit for the period and total comprehensive income		**5 036**	**8 616**
Profit (loss) and total comprehensive income (loss) attributable to:			
Cherkizovo Group		5 401	8 708
Non-controlling interests		(365)	(92)
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):		131.61	212.16

*Comparative information for the six months ended 30 June 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 3).

Unaudited condensed consolidated interim statement of financial position

As at 30 June 2019

(in millions of Russian rubles, unless otherwise indicated)

	Notes	30 June 2019	31 December 2018
ASSETS			
Non-current assets			
Property, plant and equipment	10	82 069	82 766
Investment property		589	595
Right-of-use assets	3	1 527	-
Goodwill		1 255	1 255
Intangible assets		2 210	2 144
Non-current biological assets	11	2 864	2 673
Investments in joint ventures and associates		3 431	3 518
Long-term deposits in banks		641	641
Restricted cash	10	100	109
Deferred tax assets		1 204	1 073
Rights to claim debt		4 685	4 685
Other non-current assets		1 219	678
Total non-current assets		**101 794**	**100 137**
Current assets			
Biological assets	11	20 776	15 395
Inventories	12	10 839	12 429
Taxes recoverable and prepaid		2 469	1 909
Trade receivables, net		5 503	5 733
Advances paid, net		818	875
Other receivables, net	13	612	1 523
Cash and cash equivalents	14	1 467	9 613
Other current assets		520	563
Total current assets		**43 004**	**48 040**
TOTAL ASSETS		**144 798**	**148 177**

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

Unaudited condensed consolidated interim statement of financial position (continued)

As at 30 June 2019

(in millions of Russian rubles, unless otherwise indicated)

	Notes	30 June 2019	31 December 2018
EQUITY AND LIABILITIES			
Equity			
Share capital		-	-
Treasury shares		(3 724)	(3 724)
Additional paid-in capital		5 611	5 611
Retained earnings	15	59 162	57 932
Total shareholder's equity		**61 049**	**59 819**
Non-controlling interest		625	990
Total equity		**61 674**	**60 809**
Non-current liabilities			
Long-term borrowings	16	29 917	44 643
Long-term lease liabilities	3	741	-
Deferred tax liability		835	996
Total non-current liabilities		**31 493**	**45 639**
Current liabilities			
Short-term borrowings	16	35 658	24 170
Short-term lease liabilities	3	351	-
Trade payables		9 849	10 830
Advances received		454	576
Payables for non-current assets		964	1 216
Tax related liabilities		1 276	1 325
Payroll related liabilities		2 254	2 707
Other payables and accruals		825	905
Total current liabilities		**51 631**	**41 729**
Total liabilities		**83 124**	**87 368**
TOTAL EQUITY AND LIABILITIES		**144 798**	**148 177**

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

Unaudited condensed consolidated interim statement of changes in equity

For the six months ended 30 June 2019

(in millions of Russian rubles, unless otherwise indicated)

	Share capital		Treasury shares						
	Amount	Number of shares	Amount	Number of shares	Additional paid-in capital	Retained earnings	Total shareholder's equity	Non-controlling interests	Total equity
Balances at 1 January 2018	**-**	**43 963 773**	**(3 724)**	**(2 916 759)**	**5 588**	**49 850**	**51 714**	**1 066**	**52 780**
Profit for the period and total comprehensive income	-	-	-	-	-	8 709	**8 709**	(92)	**8 617**
Purchase of non-conrolling interests	-	-	-	-	11	-	**11**	(12)	**(1)**
Dividends	-	-	-	-	-	(3 081)	**(3 081)**	-	**(3 081)**
Balances at 30 June 2018	**-**	**43 963 773**	**(3 724)**	**(2 916 759)**	**5 599**	**55 478**	**57 353**	**962**	**58 315**
Balances at 1 January 2019	**-**	**43 963 773**	**(3 724)**	**(2 916 759)**	**5 611**	**57 932**	**59 819**	**990**	**60 809**
Profit for the period and total comprehensive income	-	-	-	-	-	5 401	**5 401**	(365)	**5 036**
Dividends (Note 15)	-	-	-	-	-	(4 171)	**(4 171)**	-	**(4 171)**
Balances at 30 June 2019	**-**	**43 963 773**	**(3 724)**	**(2 916 759)**	**5 611**	**59 162**	**61 049**	**625**	**61 674**

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

Unaudited condensed consolidated interim statement of cash flows

For the six months ended 30 June 2019

(in millions of Russian rubles, unless otherwise indicated)

	Six months ended 30 June 2019	Six months ended 30 June 2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	**5 198**	**8 708**
Adjustments for:		
Depreciation and amortization	3 357	2 839
Changes in allowance for expected credit losses	(24)	37
Foreign exchange (gain) loss, net	(578)	256
Interest income	(147)	(128)
Interest expense, net	2 065	1 639
Net change in fair value of biological assets	(2 248)	(6 065)
Net revaluation of harvested crops in stock	660	(945)
Loss on disposal of property, plant and equipment, net	31	9
Loss (gain) on disposal of non-current biological assets, net	35	(59)
Share of loss of joint ventures and associates	136	230
Other adjustments, net	(10)	(3)
Operating cash flows before working capital and other changes	**8 475**	**6 518**
Decrease in inventories	1 163	1 554
Increase in biological assets	(3 092)	(1 519)
Decrease (increase) in trade receivables	254	(132)
Decrease in advances paid	74	600
(Increase) decrease in other receivables and other current assets	(294)	248
Increase in other non-current assets	(8)	(17)
Decrease in trade payables	(630)	(146)
(Decrease) increase in tax related liabilities (other than income tax)	(48)	177
Decrease in other current payables	(454)	(216)
Operating cash flows before interest and income tax	**5 440**	**7 067**
Interest received	151	145
Interest paid	(2 131)	(2 091)
Government grants for compensation of interest expense received	800	70
Income tax paid	(638)	(398)
Net cash from operating activities	**3 622**	**4 793**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(3 724)	(4 417)
Purchases of non-current biological assets	(719)	(419)
Purchases of intangible assets	(235)	(168)
Proceeds from sale of property, plant and equipment	45	64
Proceeds from disposal of non-current biological assets	364	487
Acquisitions of subsidiaries, net of cash acquired	(190)	-
Investments in joint ventures and associates	-	(198)
Placing of deposits and issuance of loans	(81)	-
Proceeds from repayment of loans issued and redemption of deposits	150	388
Net cash used in investing activities	**(4 390)**	**(4 263)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term loans	730	13 241
Repayment of long-term loans	(2 421)	(8 643)
Proceeds from short-term loans	7 192	9 971
Repayment of short-term loans	(8 428)	(11 360)
Lease payments	(280)	-
Dividends paid	(4 171)	(3 081)
Purchase of non-controlling interests	-	(1)
Net cash (used in) from financing activities	**(7 378)**	**127**
Net (decrease) increase in cash and cash equivalents	**(8 146)**	**657**
Cash and cash equivalents at the beginning of the period	**9 613**	**705**
Cash and cash equivalents at the end of the period	**1 467**	**1 362**

Non-cash transactions:

The Group obtained various letters of credit in a well-known Russian bank with respect to the Group's commitments to certain suppliers of machinery and equipment. At the date of each letter the bank opened a credit line to the Group and transferred an equal and opposite amount to a special restricted deposit account as a guarantee of fulfilment of the Group's obligations under the letters of credit (see Note 10). The transfer represents a non-cash transaction, because the credit line and the restricted bank account were opened within the same bank and the transaction did not impact the Group's cash position.

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

Notes to the unaudited condensed consolidated interim financial statements

For the six months ended 30 June 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.

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, nineteen pork farms, nine poultry production complexes (including the Belaya Ptitsa production complex which is currently operate pursuant to a lease agreement), nine animal feed plants, twelve grain elevators and more than 290 000 hectares of agricultural land.

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

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

Operating environment

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

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

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

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

2. Basis of preparation

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

These financial statements do not include all the information and disclosures required in the annual financial statements. The Group omitted disclosures, which would substantially duplicate the information contained in its audited annual consolidated financial statements for 2018 prepared in accordance with International Financial Reporting Standards ("IFRS"), such as accounting policies and details of accounts, which have not changed significantly in amount or composition.

The financial results for the six months ended 30 June 2019 are not necessarily indicative of the financial results for the full year. The unaudited condensed consolidated interim financial statements should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2018.

3. Significant accounting policies

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

The same accounting policies, presentation and methods of computation have been followed in these condensed consolidated financial statements as were applied in the preparation of the Group’s consolidated financial statements for the year ended 31 December 2018, except for the impact of the adoption of IFRS 16 ‘Leases” from 1 January 2019 and the effect of the changes in accounting policy described below.

The impact of the adoption of IFRS 16 “Leases” on the Group’s results of operations and financial position together with the changes in accounting policy are described below. The adoption of other standards and amendments did not have an impact on the Group’s results of operations, financial position or cash flows.

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

IFRS 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 of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

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.

Accounting policy effective from 1 January 2019
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.

(in millions of Russian rubles, unless otherwise indicated)

3. Significant accounting policies continued

The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. 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.

Key sources of estimation uncertainty

In application of IFRS 16 the Group makes the following estimates:

- Lease term. The lease term corresponds to the non-cancellable period of each contract. The Group also considers the cases where the Group is reasonably certain of not exercising early termination options. When assessing such options management assesses residual useful life of the asset located on the leased site, investment strategy of the Group and relevant investment decisions and duration of the renewal and early termination options.
- Discount rate. When calculating the present value of the lease payments the Group uses the incremental borrowing rate. Discount rate is determined for each asset based on the incremental borrowing rate at the inception of the contract. As of 1 January 2019 the weighted average borrowing rate applied by the Group to discount its lease liabilities amounted to 8.9%.

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	(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	(220)
Transfer from property, plant and equipment	615
Right-of-use assets recognized at 1 January 2019	**1 668**

For the six months ended 30 June 2019 the movement of lease liabilities was as follows:

Balance at 1 January 2019	**1 308**
Interest expense on lease liabilities	54
Lease payments	(280)
New lease contracts and modification of existing lease contracts	10
Balance at 30 June 2019	**1 092**

(in millions of Russian rubles, unless otherwise indicated)

3. Significant accounting policies continued

For the six months ended 30 June 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	(17)	(138)	(52)	(4)	**(211)**
New lease contracts and modification of existing lease contracts	62	2	42	-	**106**
Transfer to property, plant and equipment, net	-	-	-	(36)	**(36)**
Cost at 30 June 2019	**580**	**773**	**368**	**15**	**1 736**
Accumulated depreciation as at 30 June 2019	(17)	(138)	(52)	(2)	**(209)**
Carrying amount at 30 June 2019	**563**	**635**	**316**	**13**	**1 527**

For the six months ended 30 June 2019 lease expenses for leases with lease term of 12 months or less and leases of low-value assets amounted to 110 and lease expenses for variable lease payments not included in the measurement of lease liabilities amounted to 10.

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 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 condensed consolidated interim statement of profit or loss and other comprehensive income for the six months ended 30 June 2018 was as follows:

Six months ended 30 June 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	45 539	-	(1 032)	44 507
Cost of sales	(34 627)	(1 159)	850	(34 936)
Gross profit	**17 922**	**(1 159)**	**(182)**	**16 581**
Selling, general and administrative expenses	(7 267)	1 159	-	(6 108)
Other operating income, net	50	-	182	232
Operating profit	**10 475**	**-**	**-**	**10 475**

Notes to the unaudited condensed consolidated interim financial statements

For the six months ended 30 June 2019

(in millions of Russian rubles, unless otherwise indicated)

4. Operating segments

The Group's operations are divided into five segments by types of products produced: poultry, pork, meat processing, grain and feed. Substantially all of the Group's operations are located within the Russian Federation. All segments have different segment managers responsible for the segments' operations. The chief operating decision maker (the Chief Executive Officer) is individual responsible for allocating resources to and assessing the performance of each segment of the business.

- The **Meat processing segment** operations include the production of two distinctive product lines: Sausages product line, which comprises a wide range of processed meat products, including sausages, ham, hot dogs, etc., and Pork product line, which comprises production and sales of pork meat.
- The **Poultry segment** operations consist of breeding, raising and processing broilers, as well as sales of chilled and frozen chicken products.
- The **Pork segment** operations consist of breeding, raising and selling live pigs.
- The **Grain segment** is involved in the farming of wheat and other crops.
- The **Feed segment** is involved in the production of feed for internal use by pork and poultry segments.

All five segments are involved in other business activities, including production of dairy, sale of non-hatchery eggs and other services, which are non-core business activities. The Group also presents separately two reconciling columns in the table with segment information:

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

Each of Turkey and Corporate itself are not operating segments.

The Group evaluates segment performance based on Adjusted EBITDA, which is the primary segment profit measure of the Group. Adjusted EBITDA is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance. The Group accounts for inter-segment sales and transfers as if the sales or transfers were to third parties. The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3. 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.

As previously reported in the consolidated financial statements for the year ended 31 December 2018, in the fourth quarter of 2018, the Group changed the definition of Adjusted EBITDA and included revaluation of unsold harvest at fair value less costs to sell at the harvest date. Accordingly, the comparative information for the six months ended 30 June 2018 has been retrospectively adjusted to reflect the change in the segment profit measure.

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 six months ended 30 June 2018 has been retrospectively adjusted to reflect the change in presentation.

(in millions of Russian rubles, unless otherwise indicated)

4. **Operating segments** continued

Segment information for the six months ended 30 June 2019 comprised:

	Meat-processing	Pork	Poultry	Grain	Feed	Total reportable segments	Corporate	Intersegment and other adjustments	Total without Turkey	Turkey	Total consolidated
Total sales	18 968	12 089	32 953	977	20 116	85 103	-	(32 377)	52 726	2 935	55 661
including sales volume discounts	(433)	-	(348)	-	-	(781)	-	-	(781)	(62)	(843)
Intersegment sales	(2)	(10 375)	(816)	(655)	(20 107)	(31 955)	-	32 029	74	(74)	-
Sales to external customers	18 966	1 714	32 137	322	9	53 148	-	(348)	52 800	2 861	55 661
Net change in fair value of biological assets	-	1 734	(324)	838	-	2 248	-	-	2 248	-	2 248
Net revaluation of harvested crops in stock	-	-	-	(157)	-	(157)	-	(503)	(660)	-	(660)
Cost of sales	(17 850)	(8 315)	(25 774)	(753)	(19 917)	(72 609)	-	32 639	(39 970)	(2 662)	(42 632)
Gross profit (loss)	**1 118**	**5 508**	**6 855**	**905**	**199**	**14 585**	**-**	**(241)**	**14 344**	**273**	**14 617**
Operating expenses*	(2 003)	(216)	(3 447)	(115)	(91)	(5 872)	(2 045)	275	(7 642)	(305)	(7 947)
Share of (loss) profit of joint ventures and associates	(67)	-	103	-	-	36	-	-	36	(172)	(136)
Operating income (loss)	**(952)**	**5 292**	**3 511**	**790**	**108**	**8 749**	**(2 045)**	**34**	**6 738**	**(204)**	**6 534**
Other income (expenses), net**	353	13	152	7	260	785	49	(105)	729	-	729
Interest expense, net	(77)	(482)	(654)	(62)	(308)	(1 583)	(587)	105	(2 065)	-	(2 065)
Profit (loss) before income tax	**(676)**	**4 823**	**3 009**	**735**	**60**	**7 951**	**(2 583)**	**34**	**5 402**	**(204)**	**5 198**
Adjustments for:											
Interest expense, net	77	482	654	62	308	1 583	587	(105)	2 065	-	2 065
Interest income	(12)	(2)	(129)	-	(2)	(145)	(107)	105	(147)	-	(147)
Foreign exchange gain (loss)	(343)	(11)	(20)	(6)	(257)	(637)	59	-	(578)	-	(578)
Depreciation and amortisation expense	613	790	1 201	147	323	3 074	282	-	3 356	1	3 357
Net change in fair value of biological assets	-	(1 734)	324	(838)	-	(2 248)	-	-	(2 248)	-	(2 248)
Share of loss (profit) of joint ventures and associates	67	-	(103)	-	-	(36)	-	-	(36)	172	136
Share of adjusted EBITDA of joint ventures and associates***	4	-	79	-	-	83	-	-	83	178	261
Bonuses to employees under long-term incentive program	4	7	34	1	3	49	67	-	116	-	116
Depreciation and amortisation accumulated in harvested crops in stock	-	-	-	(70)	-	(70)	-	-	(70)	-	(70)
Adjusted EBITDA	**(266)**	**4 355**	**5 049**	**31**	**435**	**9 604**	**(1 695)**	**34**	**7 943**	**147**	**8 090**
Supplemental information:											
Segment capital expenditures	493	1 337	740	848	206	3 624	338	-	3 962	-	3 962
Income tax expense (benefit)	30	(8)	29	(2)	3	52	110	-	162	-	162

* Operating expenses include selling, general and administrative expenses and other operating expenses/income, net.
** Other income (expenses), net presents interest income and other income (expenses), net 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.

Notes to the unaudited condensed consolidated interim financial statements

For the six months ended 30 June 2019

(in millions of Russian rubles, unless otherwise indicated)

4. Operating segments continued

Restated segment information for the six months ended 30 June 2018 comprised:

	Meat-processing	Pork	Poultry	Grain	Feed	Total reportable segments	Corporate	Intersegment and other adjustments	Total without Turkey	Turkey	Total consolidated
Total sales	17 694	9 889	23 486	1 976	13 681	66 726	-	(24 768)	41 958	2 549	44 507
including sales volume discounts	(379)	-	(286)	-	-	(665)	-	-	(665)	(28)	(693)
Intersegment sales	(20)	(8 755)	(683)	(1 048)	(13 681)	(24 187)	-	24 354	167	(167)	-
Sales to external customers	17 674	1 134	22 803	928	-	42 539	-	(414)	42 125	2 382	44 507
Net change in fair value of biological assets	-	3 876	614	1 575	-	6 065	-	-	6 065	-	6 065
Net revaluation of harvested crops in stock	-	-	-	965	-	965	-	(20)	945	-	945
Cost of sales	(15 779)	(6 161)	(18 963)	(2 871)	(13 455)	(57 229)	-	24 504	(32 725)	(2 211)	(34 936)
Gross profit (loss)	**1 915**	**7 604**	**5 137**	**1 645**	**226**	**16 527**	**-**	**(284)**	**16 243**	**338**	**16 581**
Operating expenses*	(1 667)	(108)	(2 530)	(96)	(17)	(4 418)	(1 394)	224	(5 588)	(288)	(5 876)
Share of loss of joint ventures and associates	-	-	-	-	-	-	-	-	-	(230)	(230)
Operating income (loss)	**248**	**7 496**	**2 607**	**1 549**	**209**	**12 109**	**(1 394)**	**(60)**	**10 655**	**(180)**	**10 475**
Other (expenses) income, net**	(169)	18	6	4	(45)	(186)	73	(15)	(128)	-	(128)
Interest expense, net	(29)	(270)	(301)	(86)	(428)	(1 114)	(540)	15	(1 639)	-	(1 639)
Profit (loss) before income tax	**50**	**7 244**	**2 312**	**1 467**	**(264)**	**10 809**	**(1 861)**	**(60)**	**8 888**	**(180)**	**8 708**
Adjustments for:											
Interest expense, net	29	270	301	86	428	1 114	540	(15)	1 639	-	1 639
Interest income	(11)	(23)	(38)	(1)	(3)	(76)	(67)	15	(128)	-	(128)
Foreign exchange loss (gain)	179	6	32	(3)	48	262	(6)	-	256	-	256
Depreciation and amortisation expense	364	595	1 018	393	287	2 657	181	-	2 838	1	2 839
Net change in fair value of biological assets	-	(3 876)	(614)	(1 575)	-	(6 065)	-	-	(6 065)	-	(6 065)
Share of loss of joint ventures and associates	-	-	-	-	-	-	-	-	-	230	230
Share of adjusted EBITDA of joint ventures and associates***	-	-	-	-	-	-	-	-	-	(67)	(67)
Bonuses to employees under long-term incentive program	-	-	-	-	-	-	-	-	-	-	-
Depreciation and amortisation accumulated in harvested crops in stock	-	-	-	(328)	-	(328)	-	-	(328)	-	(328)
Adjusted EBITDA	**611**	**4 216**	**3 011**	**39**	**496**	**8 373**	**(1 213)**	**(60)**	**7 100**	**(16)**	**7 084**
Supplemental information:											
Segment capital expenditures	1 365	1 850	726	164	142	4 247	268	-	4 515	-	4 515
Income tax expense (benefit)	(15)	41	51	7	(57)	27	65	-	92	-	92

* Operating expenses include selling, general and administrative expenses and other operating expenses/income, net.
** Other income (expenses), net presents interest income and other income (expenses), net 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.

(in millions of Russian rubles, unless otherwise indicated)

5. Cost of sales

Cost of sales for the six months ended 30 June 2019 and 2018 comprised:

	Six months ended 30 June 2019	**Six months ended 30 June 2018**
Raw materials	27 768	22 504
Personnel (excluding pension costs)	5 998	4 839
Depreciation	2 989	2 613
Utilities	2 337	1 968
Pension costs	1 222	945
Other	2 318	2 067
Total cost of sales	**42 632**	**34 936**

6. Selling, general and administrative expenses

Selling, general and administrative expenses for the six months ended 30 June 2019 and 2018 comprised:

	Six months ended 30 June 2019	**Six months ended 30 June 2018**
Personnel (excluding pension costs)	2 882	2 129
Transportation	1 541	1 218
Advertising and marketing	504	474
Pension costs	446	357
Materials and supplies	354	263
Depreciation and amortisation	350	181
Security services	256	215
Information technology and communication services	167	98
Utilities	137	118
Audit, consulting and legal fees	122	91
Bonuses to employees under long-term incentive program*	116	-
Taxes (other than income tax)	92	107
Insurance	80	94
Veterinary services	57	98
Rent expenses**	36	234
Repairs and maintenance	21	33
Bank charges	17	17
Change in allowance for expected credit losses and other write-off	(24)	37
Other	653	344
Total selling, general and administrative expenses	**7 807**	**6 108**

* 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.

** Decrease in rent expenses was a result of IFRS 16 adoption (Note 3).

(in millions of Russian rubles, unless otherwise indicated)

7. Other operating (expenses) income, net

Other operating (expenses) income, net for the six months ended 30 June 2019 and 2018 comprised:

	Six months ended 30 June 2019	Six months ended 30 June 2018
Income from non-core activities of the Group	923	1 032
Expenses related to income from non-core activities, comprising:	(997)	(850)
Raw materials	(734)	(607)
Personnel (excluding pension costs)	(86)	(99)
Depreciation	(18)	(45)
Utilities	(29)	(49)
Pension costs	(19)	(20)
Other	(111)	(30)
Loss on disposal of property, plant and equipment, net	(31)	(9)
(Loss) gain on disposal of non-current biological assets, net	(35)	59
Other operating (expenses) income, net	**(140)**	**232**

8. Interest expense, net

Interest expense, net for the six months ended 30 June 2019 and 2018 comprised:

	Six months ended 30 June 2019	Six months ended 30 June 2018
Interest on bank overdrafts and loans*	2 932	2 190
Interest on lease liabilities	54	22
Less: amounts included in the cost of qualifying assets	(56)	(162)
Total interest expense	**2 930**	**2 050**
Government grants for compensation of interest expenses*	(914)	(474)
Less: amounts included in the cost of qualifying assets	49	63
Total government grants for compensation of interest expenses	**(865)**	**(411)**
Total interest expense, net	**2 065**	**1 639**

* Starting from 1 January 2017 the Group receives government grants through accredited banks, which 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. For the six months ended 30 June 2019, the Group presents such subsidy in the table above gross of related interest expense in the amount of 606. For the six months ended 30 June 2018 the amount of such subsidy was immaterial for gross-presentation.

9. Other income (expenses), net

Other income (expenses), net for the six months ended 30 June 2019 and 2018 comprised:

	Six months ended 30 June 2019	Six months ended 30 June 2018
Foreign exchange gain (loss)	578	(256)
Other income, net	4	-
Total other income (expenses), net	**582**	**(256)**

(in millions of Russian rubles, unless otherwise indicated)

10. Property, plant and equipment

The carrying amounts of property, plant and equipment as of 30 June 2019 and 31 December 2018 comprised:

	30 June 2019	31 December 2018
Land	7 409	7 529
Buildings, infrastructure and leasehold improvements	47 344	47 337
Machinery and equipment	19 462	19 377
Vehicles	2 860	2 826
Other	95	88
Construction in-progress and equipment for installation	4 233	5 112
Advances paid for property, plant and equipment	666	497
Total property, plant and equipment	**82 069**	**82 766**

During the period, the Group acquired assets with a cost of 3 160 and recognised a depreciation expense in the amount of 2 889. As at 1 January 2019 assets with carrying value of 614 of were transferred to right-of-use assets due to adoption of IFRS 16 Leases (Note 3).

Starting from 2017 the Group uses special bank accounts as a guarantee for fulfilment of the Group's obligations under the purchase contracts with foreign suppliers of machinery and equipment. At 30 June 2019, 100 (31 December 2018: 109) deposited on such accounts were presented as restricted in the condensed consolidated interim statement of financial position, since the Group is unable to use these funds for anything other than to fulfil their obligations with respect to the purchase contracts.

11. Biological assets

Non-current biological assets

The balances of non-current biological assets as of 30 June 2019 and 31 December 2018 were as follows:

	30 June 2019		31 December 2018	
	Units	Carrying amount	Units	Carrying amount
Sows, heads	107 782	2 831	100 903	2 637
Cattle, heads	471	33	510	36
Total bearer non-current biological assets	**108 253**	**2 864**	**101 413**	**2 673**

Current biological assets and related work-in progress

The balances of current biological assets were as follows:

	30 June 2019		31 December 2018	
	Units	Carrying amount	Units	Carrying amount
Pork				
Market hogs, heads	1 269 213	9 704	1 130 928	7 628
	1 269 213	9 704	1 130 928	7 628
Poultry				
Broilers, heads	32 335 419	3 138	32 859 688	2 910
Breeders, heads (bearer biological assets)	2 918 110	2 844	2 884 976	3 094
	35 253 529	5 982	35 744 664	6 004
Hatchery eggs, quantity	23 168 616	335	23 257 939	345
Other	380	15	435	17
Unharvested crops, hectares	174 941	4 393	59 555	782
Work-in progress related to cultivation of crops		347		619
Total current biological assets and related work-in progress		**20 776**		**15 395**

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

(in millions of Russian rubles, unless otherwise indicated)

12. Inventories

Inventories as of 30 June 2019 and 31 December 2018 comprised:

	30 June 2019	31 December 2018
Raw materials	7 042	8 971
Spare parts	957	899
Work-in-process	414	461
Finished goods	2 426	2 098
Total inventories	**10 839**	**12 429**

13. Other receivables, net

Other receivables as of 30 June 2019 and 31 December 2019 comprised:

	30 June 2019	31 December 2018
Subsidies receivable for interest expense reimbursement	494	985
Subsidies receivable for compensation of capital expenditure*	-	200
Subsidies receivable for purchase of fodder	-	15
Other receivables	267	455
Less: allowance for doubtful other receivables	(149)	(132)
Total other receivables, net	**612**	**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.

14. Cash and cash equivalents

Cash and cash equivalents as of 30 June 2019 and 31 December 2018 comprised:

	30 June 2019	31 December 2018
Ruble-denominated cash at banks	598	773
USD-denominated cash at banks	679	77
Bank deposits	186	8 759
Cash in hand	4	4
Total cash and cash equivalents	**1 467**	**9 613**

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

15. Shareholder's equity

Dividends

In accordance with Russian legislation, earnings available for dividends are limited to retained earnings of the Company, calculated in accordance with statutory rules in local currency. On 27 March 2019 dividends of approximately 101.63 Russian rubles per share (4 171 in total) were approved at the extraordinary shareholders' meeting. The dividends were fully paid by the end of April 2019.

(in millions of Russian rubles, unless otherwise indicated)

16. Borrowings

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

	Nominal interest rate	EIR[1]	Adjusted EIR [2]	Year of maturity	30 June 2019 Current	30 June 2019 Non-current	31 December 2018 Current	31 December 2018 Non-current
Bonds	12.50%	12.50%	12.50%	2020	-	5 000	-	5 000
Bank loans	1.00% – 13.10%	6.53%	5.44%	2019-2026	35 325	24 917	23 708	39 471
Other borrowings	0%	0%	0%		-	-	-	7
Interest payable	-	-	-		333	-	372	-
Finance lease liabilities	n/a	n/a	n/a	n/a	-	-	90	165
Total borrowings					**35 658**	**29 917**	**24 170**	**44 643**

As of 30 June 2019, the Group's borrowings were denominated in the following currencies: 63 410 in Russian rubles and 2 165 in Euro. As of 31 December 2018, the Group's borrowings were 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.

Bank loans

Terms and conditions of outstanding bank loans were as follows:

	Currency	Nominal interest rate	Year of maturity	30 June 2019	31 December 2018
Sberbank of Russia	Russian roubles	1.00%*-13.10%	2019-2024	20 801	22 348
Sberbank of Russia	Euro	3.31%	2024	2 078	2 299
Alfa bank	Russian roubles	1.00%*-9.75%	2019-2026	9 259	10 695
Bank VTB	Russian roubles	1.60%*-9.20%	2020-2023	9 957	9 645
Gazprombank	Russian roubles	1.00%*-10.85%	2019-2022	5 347	6 617
Gazprombank	Euro	1.20%	2019	87	96
Raiffeisenbank	Russian roubles	7.56%	2020	5 985	5 986
Rosselkhozbank	Russian roubles	1.50%*-11.99%	2020-2023	6 396	5 456
UniCredit Bank	Russian roubles	7.80%-12.50%	2019-2022	332	37
Total bank loans				**60 242**	**63 179**

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

Unused lines of credit

The total amount of unused credit on lines of credit as of 30 June 2019 is 63 151. The unused credit can be utilized from 2019 to 2026 and only for the purposes specified in the relevant loan agreements. Expiration of available amounts varying as follows: 9 676 expires by 31 December 2019, 30 837 expires by 31 December 2020, 1 269 expires by 31 December 2021, 13 669 expires by 31 December 2022 and 7 700 expires by 31 December 2026.

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

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

(in millions of Russian rubles, unless otherwise indicated)

16. Borrowings continued

Covenants

Certain significant loan agreements with the Sberbank of Russia, Rosselkhozbank, Bank VTB, Gazprombank and Alfa bank contain financial covenants requiring maintenance of specific debt to EBITDA, net debt to EBITDA and debt service coverage ratios. The Group was in breach of one covenant calculated based on the statutory financial statements of one of the Group subsidiaries. The Group timely received waiver stating that the bank will not demand an early repayment of the loan and interest payable. The Group was in compliance with all other covenants as at 30 June 2019.

17. Financial instruments

Categories of financial instruments and fair value measurements

The carrying values and fair values of the Group's financial assets and liabilities as of 30 June 2019 and 31 December 2018 are as follows:

	30 June 2019		31 December 2018	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Financial assets not measured at fair value				
Amortised cost				
Notes receivable (current and non-current)	160	160	310	310
Long-term deposits in banks	641	678	641	667
Other non-current assets	226	226	177	177
Trade receivables	5 503	5 503	5 733	5 733
Other receivables	612	612	1 523	1 523
Other current assets	108	108	75	75
Restricted cash	100	100	109	109
Cash and cash equivalents	1 467	1 467	9 613	9 613
	8 817	**8 854**	**18 181**	**18 207**
Financial liabilities not measured at fair value				
Amortised cost				
Borrowings	65 575	65 516	68 813	67 513
Lease liabilities	1 092	1 092	-	-
Trade payables	9 849	9 849	10 830	10 830
Payables for non-current assets	964	964	1 216	1 216
Payroll related liabilities	2 254	2 254	2 707	2 707
Other payables and accruals	825	825	905	905
	80 559	**80 500**	**84 471**	**83 171**

* As at 30 June 2019 the Group used 9.2% for short-term agreements, 10.1% for medium-term agreements, 9.7% 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.

18. Related parties

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

Transactions with key management personnel

Key management personnel of the Group are all members of Board of Directors and members of Management Board. The remuneration of key management personnel during the six months ended 30 June 2019 and 2018 were as follows:

	Six months ended 30 June 2019	Six months ended 30 June 2018
Salaries and bonuses, excluding social security contributions	495	220

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.

(in millions of Russian rubles, unless otherwise indicated)

18. Related parties continued

Trade receivables, trade payables and advances paid are associated with such transactions. The Group expects to settle such balances in the normal operating cycle.

The Group also transferred certain land plots to the closed unit investment fund managed by LLC "UK Mikhailovskyi", an entity under common control.

Balances with companies under common control are summarized as follows:

Balances	30 June 2019	31 December 2018
Trade receivables	220	291
Other non-current assets	92	92
Advances paid	9	6
Other receivables	9	7
Closed unit investment fund (presented within other non-current assets)	494	494
Trade payables	25	25
Advances received	49	1

Transactions with companies under common control are summarized as follows:

Transactions	Six months ended 30 June 2019	Six months ended 30 June 2018
Revenue	975	1 312
Rent income	101	99
Purchases of property, plant and equipment	6	14
Purchases of goods and other services	4	8

Transactions with joint ventures

The Group purchases day-old chicks from its joint venture LLC COBB-RUSSIA (former LLC Broiler Budushchego). The Group also purchases turkey meat from LLC Tambovskaya Indeika for its subsequent resale through distribution network of the Group. The Group also sells mixed fodder to LLC Tambovskaya Indeika.

Trade receivables, trade payables and advances issued are associated with such transactions. The Group expects to settle such balances in the normal course of business.

Balances with joint ventures are summarized as follows:

Balances	30 June 2019	31 December 2018
Trade receivables	87	84
Advances paid	64	-
Trade payables	554	1 057
Other payables for investments in joint ventures*	138	139

*the payables balance relates to the capital contribution to be paid to the joint venture.

Transactions with joint ventures are summarized as follows:

Transactions	Six months ended 30 June 2019	Six months ended 30 June 2018
Revenue	129	62
Purchases of goods and other services	3 233	2 754

(in millions of Russian rubles, unless otherwise indicated)

18. Related parties continued

Transactions with associate

In December 2018, the Group acquired an associate Samson – Food Products. The Group sells raw chilled pork meat for further processing to the associate. Trade receivables are associated with such transactions. The Group expects to settle such balances in the normal operating cycle.

Balances with the associate are summarized as follows:

Balances	30 June 2019	31 December 2018
Trade receivables	99	-
Other non-current assets*	117	70
Other payables for investments in associates**	42	-

*other non-current assets relates to loans receivable from the associate maturing in 2022.

**the payables balance relates to the capital contribution to be paid to the joint venture

Transactions with the associate are summarized as follows:

Transactions	Six months ended 30 June 2019	Six months ended 30 June 2018
Revenue	308	-

19. Contingencies

At the reporting date, the Group is litigating the results of recent field tax audits of certain subsidiaries of the Group done by the regional tax authorities. Management is of the opinion that no material losses will be incurred as a result of these litigations and accordingly no provision has been made in these condensed consolidated interim financial statements. Management estimates that the Group's possible exposure in relation to the aforementioned tax audits will not exceed 1% of the Group's profit for the six months ended 30 June 2019.

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

20. Subsequent events

On 21 August 2019, the Board of Directors recommended to the Extraordinary General Shareholders Meeting to distribute the Company's net profit following the results of the first half of 2019 in the form of dividends in the amount of RUB 48.79 per ordinary share.