ABOUT THE REPORT

This Annual Report for 2019 (hereinafter referred to as “the Report”) was prepared by ROS AGRO PLC. Rusagro Group (hereinafter referred to as the Company or Rusagro) should be understood to mean the group of companies consisting of ROS AGRO PLC and its subsidiaries.

Material subjects of the Report
The Report reviews the implementation of the Company’s mid-term development strategy in 2019, presents operating and financial results and describes the existing activities in the corporate governance sphere. The Report is prepared in accordance with good practice in Environmental, Social and Governance reporting (ESG) with a particular focus on human resource management, social investment and environmental protection.

Standards
The Report was prepared on the basis of ROS AGRO PLC’s management reporting and the consolidated financial statements of the Company and its subsidiaries for 2018. The Company’s consolidated financial statements were prepared in line with the International Financial Reporting Standards (IFRS) adopted by the European Union, and the requirements contained in Cap.113 of the Cyprus Companies Law.

Audit
The audit of the IFRS consolidated financial statements of ROS AGRO PLC for 2019 was conducted by PricewaterhouseCoopers Limited company.

Disclaimer
The Report contains estimations or forward-looking statements about operating, financial, economic, social and other indicators characterising the development of Rusagro. Actual events or results presented in the subsequent reports may vary materially from those expressed in the estimations and forward-looking statements due to various reasons, in particular the changing market situation and other direct risks to ROS AGRO PLC and its subsidiaries. The Company assumes no responsibility or liability for any losses or damages incurred by individuals or entities through their reliance on the forward-looking statements. Any of such statements represent one of the many possible scenarios and should not be viewed as the most probable scenario. In addition to the official information on the activities of Rusagro, the Report contains data obtained from third parties and sources that Rusagro considers to be trustworthy. This being said, the Company does not guarantee the accuracy of such information, since it may be abridged or incomplete.

Since some indicators and percentages in the tables, figures and texts of the Report have been rounded to the nearest whole number or the nearest decimal place, the sum of the rounded values may not fully match the totals. Further, some percentages contained in the tables and figures, as well as in the texts of the Report were calculated on the indicators prior to the rounding and may therefore not fully match the percentages calculated with the rounded values.
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HISTORY OF THE COMPANY

The history of the Company started back in 1995 with sugar imports and then proceeded with importing and processing of raw sugar in Russia. Shortly after, the activities began to establish a vertically integrated holding company. These activities can be divided into the following main stages.

1997–2002

- LAUNCHING THE SUGAR AND AGRICULTURE BUSINESSES
  - The Company acquires its first sugar plants and launches sugar production in the Belgorod Region.
  - To satisfy its internal demand in sugar beet raw material, the Company expands its land bank, where it also grows grain crops. The Company buys elevators to store the grain.

2003–2007

- LAUNCHING THE SUGAR AND AGRICULTURE BUSINESSES
  - The Oil and Fats Business starts with the purchase of an oil and fats production asset in Yekaterinburg.
  - The Sugar Business launches its first retail sugar brand - Chaikofsky.
  - The Company continues to expand its land bank.

2008–2010

- LAUNCHING THE MEAT BUSINESS
  - Having completed the construction of the pig-breeding farms in the Belgorod Region, the Company launches its fourth business – pork production.
  - The Sugar Business is expanding - the Company acquires two more sugar plants in the Belgorod and Tambov Regions, and also starts Mon Cafe and Brauni brands.
  - The Company amasses a land bank of 380 thousand hectares.

2011–2013

- INITIAL PUBLIC OFFERING (IPO)
  - The Company makes its initial public offering of GDRs (global depositary receipts) on the London Stock Exchange (LSE). The Company adopts a dividend policy stating that minimum 25% net profit shall be paid in dividends.
  - The Oil and Fats Business purchases an oil extraction plant in the Samara Region.
  - The Sugar Business launches the Russkii Sakhar (Russian Sugar) brand.
  - The land bank expands to 463 thousand hectares.
  - The Company exports its products to 14 countries.
EXPANDING FOUR BUSINESSES AND LAUNCHING THE FIFTH ONE

2018

- In 2018, the Sugar Business commenced the construction of the second desugarisation facility.
- The Meat Business started supplying animals to new pig farms in the Tambov Region and acquired KapitalAgro for RUB 1.8 billion. The transaction included pig farms with 10 thousand sows and a slaughterhouse with 400 thousand heads per year capacity.
- The Oil and Fats Business launched sunflower oil refining, deodorisation, and bottling shop with a capacity of 100 thousand tonnes of oil in the Samara Region. Investments amounted to RUB 1.9 billion.
- ROS AGRO PLC acquired a right to purchase the majority interest of Quartlink Holding Limited Company, an owner of Solnechnye Produkty Group, - the second largest sunflower processing company in Russia, a leader in the production of margarine and mayonnaise.
- The Agriculture business expanded the land bank by 11 thousand hectares in the Tambov Region as a result of the purchase of 100% stake of LLC Vozrozhdenie.
- The Company first entered China market with agricultural products and delivered 5 thousand tonnes of maize at Qingdao port.
- Rusagro launched a Dairy Products Business with specialisation on cheese and butter production.


STARTING FLOATING ON THE MOSCOW STOCK EXCHANGE AND LAUNCHING A SLAUGHTERHOUSE

- The Company’s depositary receipts admitted to trading on the MICEX.
- The Sugar Business modernises the plants and introduces new packaging lines.
- The Meat Business is expanding - pig farms and slaughterhouses are launched in the Tambov Region.
- The Company embarks upon the creation of a food cluster in the Primorsky Territory: acquires 26 thousand hectares of land and an oil and fats plant and concludes an agreement on the construction of infrastructure for a pig-breeding project.

RAZGULAY DEAL AND SECONDARY PUBLIC OFFERING (SPO)

- The Company acquires from the Razgulay company three sugar plants in the Kursk and Orel Regions, a cereal processing plant, and a land bank.
- The Sugar Business launches the first molasses desugarisation facility.
- The Slovo Myasnika (Word of Butcher) brand of the Meat Business enters the consumer market; the Meat Business starts a project for the construction of new pig farms in the Tambov Region.
- The Oil and Fats Business brings into operation a fats interesterification shop in Yekaterinburg.
- The Company amasses a land bank of 665 thousand hectares.
- The Company holds an SPO on the LSE and raises USD 250 million.
HIGHLIGHTS OF 2019

2019

EXPANSION OF THE SLAUGHTERING CAPACITY

Due to the growth of pigs livestock, Rusagro initiated the project to increase the slaughtering capacity by c. 33%. The project should reach its full capacity in Q2 2020, the investments amounted to RUB 2.2 billion.

SALE OF KOLYSHLEISKII ELEVATOR

In May, Rusagro sold 100% stake of LLC Kolyshleiskiy Elevator. The elevator is situated in the Penza Region. The sales price totalled RUB 0.5 billion.

EXPANSION OF EXPORTS MIX TO CHINA

In July, the Agriculture Business delivered the first shipload lot of soybeans with a volume of 4.4 thousand tonnes to COFCO Trading Ltd. Following the results of several certifications of oil extraction and sugar plants, Rusagro signed its first contract for meal and pulp supply to China.

In October, the Oil and Fats Business resumed deliveries to China after long-term interruption with exports of Schedroye Leto margarine.

SHARE ACQUISITION IN AGRO-BELOGORIE

In August, Rusagro acquired a share of 22.5% in Agro-Belogorie Group of Companies. In 2018, Agro-Belogorie ranked third among pork producers in Russia with a share of 5% and a production volume of 219 thousand tonnes of pork in live weight.

SECOND DESUGARIZATION PLANT LAUNCH

In December Rusagro launched second molasses desugarization plant. It will be able to process molasses from six Company’s sugar plant and produce around 70 thousand tonnes of sugar and around 20 thousand tonnes of betaine.

INITIATION OF PRE-COMMISSIONING WORKS ON THE ELEVATOR IN THE PRIMORYE TERRITORY

In September, Rusagro initiated pre-commissioning works on the elevator constructed within the project on the launch of a vertically-integrated pig farm in the Primorye Territory. The commissioning of the elevator is scheduled for 2020.

For more details on the project, see page XX.

RECORD-HIGH RESULTS OF SUGAR PER HECTARE

The Agriculture Business showed record-high figures of sugar yield per hectare. In 2019, the indicator raised by 19% year-on-year and reached 8.2 tonnes/ha. These results were enabled by favourable weather conditions, improvement of agricultural technologies and field management automation.
Rusagro is one of the largest vertically integrated agriholdings in Russia. The Company holds the substantial share in the domestic production of pork, sugar, agricultural and oil and fats products. According to the results of 2019, the Company’s average headcount totalled 19.7 thousand people, the turnover - RUB 138.2 billion.

### Revenues, RUB billion

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Values</td>
<td>72.4</td>
<td>84.3</td>
<td>79.1</td>
<td>83.0</td>
<td>138.2</td>
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</table>

### Adjusted EBITDA, RUB billion

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
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</thead>
<tbody>
<tr>
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<td>24.4</td>
<td>18.2</td>
<td>14.0</td>
<td>16.2</td>
<td>20.0</td>
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### Capital investments, RUB billion

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
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<tbody>
<tr>
<td>Values</td>
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<td>16.7</td>
<td>17.5</td>
<td>15.6</td>
<td>16.8</td>
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### Average headcount of employees, people

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
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<tbody>
<tr>
<td>Values</td>
<td>10.4</td>
<td>13.4</td>
<td>14.0</td>
<td>15.2</td>
<td>19.7</td>
</tr>
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</table>

1. Before elimination between segments and excluding results from other operations
SUGAR SEGMENT

Positions in Russia

No. 1 white cube sugar producer in Russia
  share in the Russian white cube sugar market 50%

No. 3 sugar producer in Russia
  share of sugar production in Russia 12%

Financial Highlights

4.0 RUB billion

adj. EBITDA | -18%

ADJ. EBITDA MARGIN 13%

Sales highlights

31.2 RUB billion

Sales | +30%

Average headcount of employees

3.0 thousand people

Sales | +30%

<table>
<thead>
<tr>
<th>Production highlights</th>
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<tbody>
<tr>
<td>1.0 million tonnes</td>
</tr>
<tr>
<td>8 thousand tonnes</td>
</tr>
<tr>
<td>171 thousand tonnes</td>
</tr>
<tr>
<td>8 thousand tonnes</td>
</tr>
<tr>
<td>215 thousand tonnes</td>
</tr>
</tbody>
</table>

1. Before eliminations between segments
MEAT SEGMENT

Positions in Russia

No. 4 commercial pork producer in Russia

5% share in commercial pork production in Russia

Financial Highlights\(^1\)

4.9 RUB billion

adj. EBITDA | -30%

ADJ. EBITDA MARGIN 19%

25.8 RUB billion

Sales | +16%

Average headcount of employees

5.9 thousand people

Sales highlights

208 thousand tonnes | +23% of pig breeding products

6 thousand tonnes | +45% of waste recycling products

16 thousand tonnes | -5% consumer products

24 thousand tonnes | +33% of offal

32 thousand tonnes | +9% of half-carasses

33 thousand tonnes | +21% of live pigs

Production highlights

243 thousand tonnes | +19% of pork in live weight

243 thousand tonnes

6 thousand tonnes | +45% of waste recycling products

16 thousand tonnes | -5% consumer products

24 thousand tonnes | +33% of offal

32 thousand tonnes | +9% of half-carasses

33 thousand tonnes | +21% of live pigs

97 thousand tonnes | +32% of large cuts and industrial products

751 thousand tonnes | +32% of compound feed

\(^1\) Data are shown before elimination between segments
**OIL AND FATS SEGMENT**

**Positions in Russia**

**No. 1**
- Sunflower oil producer in Russia
  - Share in sunflower oil production in Russia: 12%

**No. 1**
- Consumer margarine producer in Russia
  - Share in consumer margarine production in Russia: 50%

**No. 2**
- Mayonnaise producer in Russia
  - Share in mayonnaise production in Russia: 18%

**No. 2**
- Industrial fats producer in Russia
  - Share in industrial fats production in Russia: 21%

**No. 5**
- Bottled oil producer in Russia
  - Share in bottled oil production in Russia: 6%

**Financial Highlights**

- **3.7 RUB billion**
  - Adj. EBITDA: +27%
  - Adj. EBITDA Margin: 6%

**Sales indicators**

- **62.4 RUB billion**
  - Sales: +137%

**Production highlights**

- **1.6 million tonnes**
  - of products: +148%
  - 45 thousand tonnes: +52% of consumer margarine
  - 136 thousand tonnes: +181% of mayonnaise
  - 147 thousand tonnes: +52% of bottled vegetable oil
  - 243 thousand tonnes: +2,329% of industrial fats

- **1.9 million tonnes**
  - of products: +145%
  - 42 thousand tonnes: +60% of consumer margarine
  - 146 thousand tonnes: +203% of mayonnaise
  - 143 thousand tonnes: +62% of bottled vegetable oil
  - 285 thousand tonnes: +2,284% of industrial fats

**Average headcount of employees**

- **5.6 thousand people**
  - Before eliminations between segments

**Average headcount of employees**

- **647 thousand tonnes**
  - of meal: +114%
  - 641 thousand tonnes: +130% of crude vegetable oil
  - 636 thousand tonnes: +100% of meal
AGRICULTURE SEGMENT

Financial highlights

- adj. EBITDA: 6.1 RUB billion | +23%
- ADJ. EBITDA MARGIN: 24%

Sales highlights

- 5.4 million tonnes of agricultural crops | +24%
- 0.3 million tonnes of oil crops | +11%
- 1.3 million tonnes of grain crops | +64%
- 0.4 million tonnes of oil crops | +15%
- 3.9 million tonnes of sugar beet | +11%

Production highlights

- 5.4 million tonnes of agricultural crops | +8%
- 0.4 million tonnes of oil crops | +15%
- 1.0 million tonnes of grain crops | 6%
- 3.9 million tonnes of sugar beet | +13%

Positions in Russia

- No. 3 land bank holder in Russia
- 641 thousand hectares | -2%
- 562 thousand hectares | -3%

Land bank

- 54% owned land bank

Arable land

- Average headcount of employees: 4.3 thousand people

1 Before eliminations between segments
DAIRY PRODUCTS

Positions in Russia

No. 13 cheese and cheese analogues producer in Russia

2% share in cheese and cheese analogues production in Russia

Financial Highlights¹

63 RUB million
adj. EBITDA

ADJ. EBITDA MARGIN 2%

3.9 RUB billion
Sales

Sales highlights

27 thousand tonnes

8 thousand tonnes of cheese and cheese analogues

2 thousand tonnes of butter and spread

Production highlights

27 thousand tonnes

8 thousand tonnes of cheese and cheese analogues

2 thousand tonnes of butter and spread

15 thousand tonnes of dry mixes and condensed whey

16 thousand tonnes of dry mixes and condensed whey

Average headcount of employees

0.4 thousand people

¹ Before elimination between segments
GEOGRAPHIC FOOTPRINT

The assets of the Company are located in 14 constituent entities of the Russian Federation: Moscow, Belgorod, Tambov, Voronezh, Kursk, Orel, Sverdlovsk, Samara, Ulyanovsk, Saratov, Orenburg, Penza, and Novosibirsk Regions, as well as Primorye Territory. The Company is headquartered in the Tambov Region, with a separate division in Moscow.

1. **Moscow Region**
   - 1 oil and fats plant
   - Land bank 44 thousand hectares
   - 0.6 thousand jobs at year-end

2. **Orel Region**
   - 1 sugar plant
   - Land bank 44 thousand hectares
   - 0.6 thousand jobs at year-end

3. **Kursk Region**
   - 2 sugar plants
   - Land bank 17 thousand hectares
   - 0.8 thousand jobs at year-end

4. **Ulyanovsk Region**
   - 1 dairy plant

5. **Tambov and Voronezh Regions**
   - 3 sugar plants
   - 1 cereal processing plant
   - 10 pig farms
   - 3 breeding farms
   - 1 compound feed mill and elevator
   - 1 slaughterhouse and meat processing plant
   - 2 elevators
   - Land bank 174 thousand hectares
   - 6.2 thousand jobs at year-end

6. **Belgorod Region**
   - 3 sugar plants
   - 8 pig farms
   - 2 breeding farms
   - 1 compound feed mill
   - 1 slaughterhouse and meat processing plant
   - 2 elevators
   - Land bank 309 thousand hectares
   - 5.4 thousand jobs at year-end

7. **Sverdlovsk Region**
   - 1 oil and fats plant
   - 1.0 thousand jobs at year-end

8. **Samara Region**
   - 1 oil extraction plant
   - 1 butter- and cheesemaking plant
   - 3 elevators
   - 0.6 thousand jobs at year-end

9. **Saratov Region**
   - 1 elevator
   - 1 oil and fats plant
   - 2 oil extraction plants
   - 8 elevators
   - 3.1 thousand jobs at year-end

10. **Orenburg Region**
    - 2 elevators

11. **Penza Region**
    - 1 elevator

12. **Novosibirsk Region**
    - 1 oil and fats plant

13. **Primorye Territory**
    - 1 oil extraction and oil & fats plant
    - Land bank 96 thousand hectares
    - 1.0 thousand jobs at year-end

In 2020-2021:
- 6 pig farms
- 1 breeding farm
- 1 compound feed mill and elevator
- 1 slaughterhouse and meat processing plant

* The asset is under Rusagro’s control on a give-and-take basis
SALES GEOGRAPHY

In 2019, Rusagro exported products to 50 countries, including 17 new destinations. In particular, the Company expanded the list of European countries and made the first deliveries to Mexico, Sri Lanka, Senegal and Libya. In the reporting year, the main trade partners were Southwest Asian nations. According to the results of the year, 25% of the Company’s revenues were received from foreign sales. Further growth in exports will depend on development of Russia’s trade relations with key food-importing countries, in particular the East Asia.

1. Abkhazia  
2. Austria  
3. Azerbaijan  
4. Armenia  
5. Belarus  
6. Belgium  
7. Great Britain  
8. Vietnam  
9. Germany  
10. Hong Kong  
11. Greece  
12. Georgia  
13. Denmark  
14. Egypt  
15. Israel  
16. Ireland  
17. Spain  
18. Italy  
19. Yemen  
20. Kazakhstan  
21. Kyrgyzstan  
22. China  
23. Congo  
24. South Korea  
25. Cote d’Ivoire  
26. Latvia  
27. Libya  
28. Lithuania  
29. Morocco  
30. Mexico  
31. Moldavia  
32. Mongolia  
33. Netherlands  
34. Norway  
35. Poland  
36. Russia  
37. Senegal  
38. Serbia  
39. Singapore  
40. USA  
41. Tajikistan  
42. Turkmenistan  
43. Turkey  
44. Uzbekistan  
45. Ukraine  
46. Finland  
47. Croatia  
48. Sweden  
49. Sri Lanka  
50. Japan

New destinations
THE STRATEGIC BUSINESS GOAL OF RUSAGRO IS TO INCREASE RETURNS FOR ITS SHAREHOLDERS THROUGH GROWTH OF PRODUCTS QUALITY, EXPANSION OF THE PRODUCTION, REDUCTION OF COSTS, DEVELOPMENT OF HUMAN CAPITAL AND ARTIFICIAL INTELLIGENCE.
HIGHLIGHTS OF 2019

138.2 RUB billion sales | +67 %

5 business divisions 14 regions of presence 17 main brands

20.0 RUB billion adjusted EBITDA | +24%

15% adjusted EBITDA margin | -4 p.p.

16.8 RUB billion capital investments | +8%

19.7 ths people average headcount | +29%

34.1 RUB billion investments in social programmes | +3 %
Dear shareholders,

Last year was a challenge for Rusagro since the Company faced overproduction and record low prices for sugar and live pigs in Russia. The situation deteriorated due to the increased competition from the leaders of agricultural food products market and decreased purchasing power and population in the country. Nevertheless, the Company’s management has been strongly committed to our strategy while raising Rusagro turnover and revenue. Thus, according to the year-end results the revenue grew by 67% to RUB 138.2 billion and adjusted EBITDA grew by 24% to RUB 20.0 billion.

Following the strategical goal of business expansion, Rusagro has increased oil & fats production capacity several times: up 19% - for meat products, up 12% - for sugar, and up 8% - for agricultural products. The main reasons for the performance growth was the lease of two oil extraction plants and three oil and fats plants that belonged to the Solnechnye Produkty holding, the start of commercial pork production at three new pig farms in the Tambov Region, the acquisition of the facilities in the Belgorod Region at the end of 2018, and the bumper harvest of sugar beet, wheat, and oil crops.

In 2019, Rusagro became the largest Russian producer of crude sunflower oil and the second Russian producer of industrial fats and mayonnaise, and secured its position as the major player of the consumer margarine market. The Company ranked third among the Russian sugar producers and farmland owners and forth among the pork producers, but we are planning to enhance our position by achieving the full production capacity and starting the project at the Primorye Territory.

The achieved results showed that the Company made further progress in developing the consumer segment and its brands. Thus, in 2019 Rusagro secured its leadership at the consumer white cube sugar market, the second place at the brown cube sugar market, the top position at the Urals and Central Russia mayonnaise market, and the second place at the Russian consumer margarine market.

Considering the current market conditions, the key factors for us are cost monitoring and management decisions speed and quality. As a consequence, Rusagro implements the digital transformation strategy in each business line and invests significant resources into human capital development. As of the end of year 2019, the Company employs 19.5 thousand people. The expansion of production necessitated the increase in number of jobs by 3.2 thousand jobs per year.

I would like to thank the Board of Directors for their active role in improving corporate governance, shaping the development strategy, and approving a generous dividend policy. After considering the results of 2019, the Board of Directors recommended that RUB 4.5 billion be paid as dividends to the shareholders.
Dear shareholders,

In 2019, Rusagro enjoyed a significant increase in its earnings thanks to M&A transactions completed a year earlier and the ongoing capacity expansion projects. The Company’s sales grew by 57% year-on-year to RUB 138.2 billion and adjusted earnings before interest, taxes and amortisation (EBITDA) rose by 24% to RUB 20.0 billion. Whereby, the adjusted EBITDA margin decreased by 4 p.p. to 15% on the back of prevailing market conditions. The net profit went down by 24% to RUB 9.7 billion as a result of the negative revaluation of biological assets and the crop yields.

All Rusagro’s Businesses increased their revenues; the Agriculture and Oil & Fats Businesses also managed to achieve positive EBITDA dynamics.

Based on the year-end results, the Agriculture Business turned out to be the most lucrative segment. It accounted for 33% of Rusagro’s EBITDA before intersegmental eliminations, which was equal to RUB 6.1 billion with a 23% increase year-on-year. Such growth was driven by high carry-overs from 2018 to 2019 and the rise in market prices for some products. In this case, higher grain prices offered a partial offset of the losses incurred by record low prices for sugar beet and allowed the Business to retain a 24% profit margin.

The Oil and Fats Business also showed an increase in EBITDA spurred by more than twofold revenue growth as a result of utilising Solnechnye Produkty Holding production facilities, in particular on a leasehold basis starting from the second half of the year. EBITDA reached RUB 3.7 billion, +27% year-on-year. Meanwhile, the business profit margin decreased by 5 p.p. to 6%, which was partly owing to strong sales of industrial fats, which had a low profit margin during the year due to a necessity for dynamic growth of sales.

Despite a 16% increase in the revenues year-on-year, the Meat Business demonstrated falling revenues. EBITDA decreased by 30% to RUB 4.9 billion. The positive effect from a 25% increase in sales of finished products was counterbalanced by lower selling prices and the increased cost of animal feed due to higher grain prices. Thus, the profit margin reduced from 31 to 19%.

Significant carry-overs of sugar from 2018 to 2019 boosted the revenues of the Sugar Business by 30% to RUB 31.2 billion. On the other hand, surplus sugar production in Russia as a result of a record high yield of beets in Russia caused a considerable drop in the beet market prices. The situation in the domestic market affected the Business profit margin, making it fall by 8 p.p. to 13%, and EBITDA, which dropped by 18% and reached RUB 4.0 billion.

In 2019, the Company continued to develop the Dairy Products Business that had been launched at the end of the previous year. The Business revenues went up to RUB 3.9 billion, but due to an increase in milk prices and efforts to improve the quality and the range of products, the profit margin came at 2% and EBITDA — at RUB 63 million.

Due to the excess of domestic production over consumption with limited export capabilities, the level of prices for sugar and pork in Russia fell to a record low. To maintain the business profit margin, the Management Team of the Company will move forward with their efforts to reduce the costs. Further growth of Rusagro will be attained through the automation of operating and management processes, the launch of running projects, the expansion of exports, and potentially through M&A transitions.
BUSINESS MODEL

The business model of Rusagro is based on vertical integration. The Sugar, Meat, and Oil and Fats Businesses have fully integrated production systems, with raw materials supplied by the Agriculture Business. The vertically integrated structure enables the business to build on diversification, ensure the supply of raw materials with minimum transportation costs, and effectively manage all elements of the value chain.
BUSINESS MODEL

All of the harvested beets are used by the Sugar Business. The beets come from the nearby territories, which makes it possible to minimise transportation costs. Pulp, molasses, betaine, and sugar beet lime are sugar processing co-products. Pulp is exported, while sugar beet lime is used as soil amendment. The molasses desugarisation facility recovers sucrose extract to produce additional sugar; betaine is exported. The Company sells its sugar and cereals under five different brands.

Grain is supplied to compound feed mills of the Meat Business. The breeding farms raise young pigs and improve pig breeds. Piglets for fattening and young animals for breeding replacements are grown on the breeding unit. The slaughterhouses and meat processing facilities produce finished products to be sold under own private brand. There is a shop for waste recycling. The manure is used on the farmlands as a fertiliser.

The Agriculture Business sells a limited amount of sunflower seeds and soybean to the Oil and Fats Business, but sales volume can change as the production increases. The crude vegetable oil produced by the Oil and Fats Business is used for the production of oil-and-fat products under eight main brands. The meal is a source of protein and therefore a valuable ingredient of pig feed. Industrial fats are used for some products in the Dairy Products Business.

In 2018, Rusagro launched its fifth business – Dairy Products Business. At the moment, the Business includes two plants. As the Company is in the raw milk surplus area, there is no need to form own raw material base. The Oil and Fats Business shares experience with the Dairy Products Business and their business cooperation in the future is being considered.

A high level of vertical integration both within each of the businesses and between the segments gives Rusagro a competitive edge in the markets, ensures superior production efficiency and financial stability. In order to maximise the benefits of each business, the Company adopted a flexible commercial policy that does not restrict the sales of products to third-party companies.

GROWTH STRATEGY

The strategic business goal of Rusagro is to increase returns for shareholders while adhering to the mission of “Making people’s lives better and longer”. To achieve this goal, the Board of Directors approved the “Field to shelf” strategic concept in 2008, the implementation of which is based on the Company’s vertically integrated business model of food production.

The strategy of the Company and its business units covers a period of five years and is annually reviewed by the Board of Directors to redirect the efforts, if required, in order to address the changes in the external environment and to effectively manage financial and human resources. The success of the Company’s strategy rests upon a careful selection of long-term priorities and the exceptional quality of the investment process that ensures a high return on equity. Such priorities include business expansion, human capital improvement, cost reduction, and productivity growth through automation, as well as the development of Rusagro’s retail products and brands.

In 2019, Rusagro invested RUB 16.8 billion, a 8% year-on-year increase. The bulk of amount (65%) was contributed to Meat Business development: in 2019, the business invested RUB 9 billion to complete the project on launching three new pig farms in the Tambov Region, to expand the deboning capacity and to complete the construction project in the Primorye Territory. The Company invested RUB 2.8 billion (20% of budget) to the Sugar Business for development due to launching the second desugarisation facility. In addition to capital investments, the Company invested RUB 8.5 billion to acquire 22.5% stake of Agro-Belogorie Group of companies in 2019.

In 2020, the Company plans to close the bulk of investments in projects on the expansion of production in the Meat and Sugar Businesses and to reduce the capex budget.

Rusagro’s capital investments in 2015-2019, RUB billion

<table>
<thead>
<tr>
<th>Year</th>
<th>Meat Business</th>
<th>Sugar Business</th>
<th>Agriculture Business</th>
<th>Oil and Fats Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>10.9</td>
<td>3.4</td>
<td>3.0</td>
<td>2.0</td>
</tr>
<tr>
<td>2018</td>
<td>9.4</td>
<td>3.1</td>
<td>2.0</td>
<td>1.2</td>
</tr>
<tr>
<td>2017</td>
<td>6.3</td>
<td>3.4</td>
<td>6.2</td>
<td>1.6</td>
</tr>
<tr>
<td>2016</td>
<td>8.1</td>
<td>2.5</td>
<td>5.1</td>
<td>1.0</td>
</tr>
<tr>
<td>2015</td>
<td>5.2</td>
<td>2.9</td>
<td>2.6</td>
<td>0.6</td>
</tr>
</tbody>
</table>

+8%
Rusagro strives to ramp up the production and expand its regional presence across all five business segments in order to maintain the market leadership. The ways of achieving this goal are as follows:

- **Organic growth** — building new production facilities, expanding the land bank, modernising and expanding the existing assets;
- **Inorganic growth** — acquiring additional companies and assets, in particular in previously unexplored business areas;
- **Increasing the share in the current regions of presence and expanding to new regions of Russia and to new countries through the development of exports.**

Pursuant to its “Field to shelf” concept, Rusagro strives to develop its retail products taking the following measures:

- Increasing the depth of product processing;
- Expanding the product mix;
- Increasing the exposure in retail channels;
- Developing private brands and promoting them on the consumer market.

In an era of technological revolution, the development and introduction of innovative solutions in IT, automation, and biotechnologies are becoming increasingly important in terms of their potential for cost reduction, product quality improvement, and additional revenue generation. The key areas of the Company’s activities related to this strategic priority include as follows:

- Introducing the precision farming technologies;
- Developing the automation of production and operating processes;
- Using advanced selection methods in crop and livestock farming, with a focus on sugar beet and pigs.

Development of human capital is a key for ensuring the Company’s sustainable growth. To achieve this goal, the following measures are taken:

- Comprehensive assessment of the strategically important personnel to generate individual development plans;
- Regular assessment of human capital development progress using the personnel quality index and personnel efficiency index;
- Creation of a talent pool of young professionals, in particular, by offering internal training and building a strong employer brand;
- Automation of HR processes.
EXPANDING PRESENCE IN ALL AREAS OF BUSINESS

- From 2015 to 2019, sugar production increased by 15% from 765 to 881 thousand tonnes as a result of the expansion (+53%) of sugar beet processing capacity and the launch of a plant for the recovery of a sucrose extract from molasses.
- In 2019, sugar production went up by 14% due to sugar beet bumper harvest.
- In 2020, the production of sugar from sucrose extract is stalled to be increased following the launch of the second desugarisation facility.
- From 2015 to 2019, the harvest volume increased by 58% from 3.4 to 5.4 million tonnes due to the expansion of arable lands by 48% and higher per-hectare yield of sugar beet, grain crops, and oil crops.
- In 2019, the gross yield went up by 9% as a result of a better sugar beet yield per hectare (+15%) and the growth of planted areas through the lease of 46 thousand hectares of arable land in the Saratov Region.
- In 2020, the planted area will be shrinked after the end of land lease in the Saratov Region.
- In 2019, pork production went up by 19% due to the expansion of production capacities.
- In 2020, the Company intends to further promote the pork production through bringing the pig farms constructed and purchased in 2018 to their full capacity.

Rusagro’s own sugar production in 2015–2019, thousand tonnes

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>766</td>
<td>809</td>
<td>984</td>
<td>773</td>
<td>881</td>
</tr>
</tbody>
</table>

Rusagro’s gross yield in 2015–2019, thousand tonnes

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>3,391</td>
<td>5,504</td>
<td>4,928</td>
<td>4,949</td>
<td>5,350</td>
</tr>
</tbody>
</table>

Rusagro’s production of oil-and-fat products in 2015–2019, thousand tonnes

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>431</td>
<td>486</td>
<td>550</td>
<td>772</td>
<td>1,891</td>
</tr>
</tbody>
</table>

Rusagro’s pork production in 2015–2019, thousand tonnes in live weight

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>187</td>
<td>190</td>
<td>207</td>
<td>204</td>
<td>243</td>
</tr>
</tbody>
</table>
DEVELOPING RETAIL SALES AND BRANDS

From 2016 to 2019, Rusagro’s Russkii Sakhar and Chaikovsky brands raised the total share of the white sugar cubes domestic market by 7 p.p. from 43 to 50%. During all these years, the Company has been the leader in this segment of the domestic sugar market.

Thanks to the launch of the Slovo Myasnika brand at the end of 2016, Rusagro increased sales of pork products under this brand to 13 thousand tonnes in 2019.

In 2019, Rusagro initiated sales of consumer margarine, mayonnaise and mayonnaise-based sauces under five brands more, including two brands with a significant share on the market. This led to an increase in the share of these categories of the Company’s products on the Russian market: by 21 and 8 p.p., respectively.

Share of cube sugar market of Rusagro’s sugar brands in 2015–2019, %

<table>
<thead>
<tr>
<th>Year</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share</td>
<td>43</td>
<td>44</td>
<td>49</td>
<td>50</td>
</tr>
</tbody>
</table>


Volume of Rusagro’s pork sales under own brand in 2017–2019, thousand tonnes

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>3</td>
<td>11</td>
<td>13</td>
</tr>
</tbody>
</table>

Sales increased by 296% (2016–2019) and 12% (2017–2019).

Domestic market share of Rusagro’s brands in 2017–2019, %

<table>
<thead>
<tr>
<th>Category</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer margarine</td>
<td>15%</td>
<td>15%</td>
<td>17%</td>
<td>14%</td>
<td>36%</td>
</tr>
<tr>
<td>Mayonnaise and mayonnaise-based sauces</td>
<td>7%</td>
<td>9%</td>
<td>8%</td>
<td>5%</td>
<td>15%</td>
</tr>
</tbody>
</table>

In 2019, Rusagro brands share increased by 21 and 8 p.p., respectively.

Source: AC Nielsen
AUTOMATION AND INNOVATION

Sugar Business
- raw materials management
- long-term sugar beet storage
- production automation

Meat Business
- feed stocks management
- vehicles admission control
- precise logistics management
- production accounting automation
- integration with Mercury system

Agriculture Business
- determination of optimal crop rotation systems
- harvested crops tracking, planning of digging, piling, and delivery of sugar beet
- differential application of crop-protecting agents and fertilisers
- scheduling of sales and placement of finished products in the elevators

Dairy Products Business
- integration with Mercury system
- integration with Rusagro’s Centere IT-systems

Oil and Fats Business
- Unification
- Unification of IT-systems across operational companies of the business
HUMAN CAPITAL

- From 2015 to 2019, the average headcount of Rusagro’s employees increased by 88% from 10.4 to 19.7 thousand people through the expansion of the Meat and Oil & Fats Businesses. In 2019, the headcount went up by 29%.
- Attractiveness of Rusagro’s Employer Brand upgraded from 41% in 2017 to 51% in 2019, according to independent Randstad Award Research.
- In 2019, Rusagro launched the HR management system - SAP Success Factors (SF) - that supports management of all stages of employee’s working life in the Company.

From 2016 to 2019, the share of internal hires in Rusagro increased from 36 to 61% as a result of the human capital upgrade, as well as the expansion of possibilities for career and professional growth of employees.

From 2016 to 2019, Rusagro increased the Philanthropy Programme budget by four times from RUB 7.8 to 34.1 million. It is focused on supporting schools and kindergartens in key regions of Rusagro’s presence.

In 2019, the Company invested 3% more than in 2018 and helped 87 schools and kindergartens in five regions.
Rusagro boosted its sugar production from 2015 to 2019 by 15% through the increase in sugar beet processing capacity driven by the purchase of three sugar plants in 2016 and the launch of Rusagro’s first molasses desugarisation facility in 2017.

**SUGAR BUSINESS RESULTS IN 2019**

- **53.9 ths t per day** +2%
  beet processing capacity
- **1.0 million tonnes** +46%
  sugar sales volume
- **31.2 RUB billion** +30%
  sales
- **4.0 RUB billion** -18%
  adjusted EBITDA
MARKET OVERVIEW

PRODUCTION

In 2019, the gross yield of sugar beets in Russia increased by 21% year-on-year and amounted to 51 million tonnes. An increase was recorded both in the area under sugar beets (+2%), and in the yield of this crop per hectare (+22%). As a result, 46 million tonnes of beets (+16%) were processed domestically over the calendar year, and 50 million tonnes - during the 2019/2020 season, which is up 30% from the previous season. Although the increase in sugar content of beets was marginal, rising only from 17.9 to 18.0%, it reached a maximum over the past five years.

Sugar production in Russia reached a new record high – 7.1 million tonnes were produced during the calendar year, which is up 19% (+1.1 million tonnes) year-on-year. During the 2019/2020 season, which lasted from August 2019 to February 2020, 7.6 million tonnes of sugar were produced, showing a season-on-season decline of 29%. Since 2017, Russian plants have no longer processed raw sugar, so all sugar produced in the country was produced from sugar beets. With a rate of annual sugar consumption of 5.8 million tonnes, over-production of sugar at a domestic level is estimated as significant.

KEY PLAYERS

In Russia, 61% of the sugar production market is held by five companies. Prodimex, with a 22% share, is a leader among domestic producers. In 2019, Rusagro again ranked third with a market share of 12%. Meanwhile, the Company holds No. 1 position in the cube sugar market. According to AC Nielsen data for 2019 across 16 cities with a million-plus population, the average annual volume ratio in cube white sugar is 50% (+1 p.p. compared to the previous year).
EXPORTS AND IMPORTS

In 2019, as a result of growth in Russian sugar production, exports grew by 67% (+262 thousand tonnes) – up to 628 thousand tonnes. The main buyer of Russian sugar was Kazakhstan, which imported 36% of the total volume, or 223 thousand tonnes of sugar (+44%). The increase in sugar exports from Russia was also driven by an increase in sales to Tajikistan (+65 thousand tonnes) and Azerbaijan (+60 thousand tonnes). A year earlier, these countries together purchased only 8 thousand tonnes of sugar. Uzbekistan, which is the second largest importer of Russian sugar, on the contrary, reduced the volume of exports by 11 thousand tonnes (–47%) down to 96 thousand tonnes.

Pushed down by rising domestic sugar supply and lower prices, sugar imports to Russia decreased by 17% and reached 253 thousand tonnes. Most of the sugar imported into Russia (85%) was supplied by Belarus.

Exports and imports of sugar in 2015–2019, thousand tonnes

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports</th>
<th>Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>'19</td>
<td>628</td>
<td>253</td>
</tr>
<tr>
<td>'18</td>
<td>375</td>
<td>304</td>
</tr>
<tr>
<td>'17</td>
<td>580</td>
<td>247</td>
</tr>
<tr>
<td>'16</td>
<td>101</td>
<td>316</td>
</tr>
<tr>
<td>'15</td>
<td>8</td>
<td>352</td>
</tr>
</tbody>
</table>

Source: Federal Customs Service of Russia

PRICES

In 2019, the annual average price of sugar on Krasnodar basis, decreased by 14% year-on-year and reached RUB 24.8/kg, exclusive of VAT. In a 12-month period, prices fell by 44% – from RUB 33.1 per kg in January to RUB 18.6 per kg in December. The downward trend and the fall in prices to the level of the export alternative were caused by the high level of sugar stocks and record sugar production volumes in Russia. World prices remained low for the second year in a row, although in 2019 the average annual world price of sugar rose by 3% (to USD 273/tonne) due to sugar stockout on the global scale.

Average sugar prices in 2018–2019, ISCO Krasnodar1, RUB/kg, excl. of VAT

OUTLOOK FOR 2020

The Ministry of Agriculture of Russia projected that in 2020 the sown area under sugar beets will decrease by 8%, pushing the sugar production down to around 6 million tonnes. With the sugar carry-over stocks amounting to 6 million tonnes at the end of 2019, the Russian sugar market will again face a situation of overproduction and low prices.

Source: Institute for Agricultural Market Studies (IKAR)

1. ISCO-IKAR industrial index of wholesale sugar prices is the average weighted index of wholesale prices for 17 sugar-producing regions.
RUSAGRO RESULTS IN 2019

BUSINESS OVERVIEW

The Company’s Sugar Business is represented by nine sugar plants located in the Tambov, Belgorod, Kursk, and Orel Regions in close proximity to the sugar beet cultivation areas of the Company’s Agriculture Business. In the Tambov Region, the Company operates the Znamensky, Nikiforovsky and Zherdeevsky sugar plants, in the Belgorod Region - Chernyansky, Nika and Valuysky plants, in the Kursk Region - Krivetsky and Kshensky plants, in the Orel Region - Otradinsky plant.

In 2019, sugar beets processing capacity of Rusagro’s plants remained at the level of the previous year - 53,850 tonnes of beets per day. The maximum sugar storage capacity is 500 thousand tonnes.

Processing capacity of the sugar plants in 2015-2019, thousand tonnes/day

The key by-products of sugar beet processing at Rusagro sugar plants are pulp and molasses. The pulp is sold to outside parties, and molasses is used for additional sugar and betaine production. The first molasses desugarisation station was launched in 2017 and the second - at the end of 2019. From 2020 on, the Company will be using the total amount of molasses for deep processing, thus receiving additionally around 100 thousand tonnes of sugar and 30 thousand tonnes of betaine, which will make Rusagro the world leader in the production of this amino acid.

The Company’s assets include OJSC Gerkules cereal plant, a large grains processing facility with its own packaging line. The plant produces buckwheat and crushed buckwheat for B2B channel, and packaged buckwheat and rice for B2C channel.
INVESTMENTS

In 2019, Rusagro invested RUB 3.4 billion in development and support of the Sugar Business, with a year-on-year increase of 10%. Most of funds (83%) was allocated for business development. Particularly, RUB 2.5 billion was invested in the project for the construction of a desugarisation facility in the Belgorod Region. In 2019, the station started processing molasses into extract to be used for extra sugar production in 2020. In order to maintain the existing facilities of the Sugar Business, the Company allocated 17% of the budget.

3.4 RUB billion +10%
Rusagro’s investment in the Sugar Business in 2019

AUTOMATION AND INNOVATION

The Sugar Business is one of the most technology-intensive segments of Rusagro. The Management of high technology projects created the Department of Innovation Development. The strategic goal of the Department’s activities is to reduce losses at all stages of sugar beet production by adopting the best world practices and innovative solutions with an eye on cost-effectiveness. The main active work is focused on three key programmes: “Raw Materials Management”, “Long-Term Storage”, and “Smart Production”.

In 2019, the Company implemented the first stage of the digital transformation strategy for the Sugar Business – “Digital Measurements”, which is the foundation for creating a decision-making system based on digital data. The key goal of this stage is to minimise the human factor in measuring production efficiency parameters.

1. The Raw Materials Management Programme focuses on the reduction of losses occurring during storage through automatization of planning based on parameters measured by the thermal monitoring system built on IOT-platform. To evaluate the quality of management of sugar beet reception the Company realized a project of measuring sugar beet stocks by UAVs.

2. The Long-term Storage Programme focuses on testing new ways to extend the processing period of a plant by storing beets for at least 90 days through active ventilation system. To evaluate quality of sugar beet supplied by long-term storage computer vision module is used.

3. The Smart Production Programme aims to reduce the losses on work sites through the automatization of the production facilities and the use of artificial intelligence.

- In 2019 digital measuring devices were installed in key process points to collect equipment operation parameters into a single data storage and processing system.
- In order to streamline technological processes and reduce losses, a monitoring and machine learning module was developed for the purpose of controlling a beet diffuser.
OPERATIONAL RESULTS

Production
In 2019, Rusagro produced 881 thousand tonnes of sugar—an increase of 14% (+108 thousand tonnes) above the 2018 level, which includes 31 thousand tonnes of sugar from molasses produced from beets processed in the 2018/2019 season. The volume of processed beets amounted to 5.8 million tonnes (+12%), including 62% of beets purchased from Rusagro’s Agriculture Business. The average sugar content of beets at a time of delivery reached 18.5%, which is 5 p.p. higher than last year. The sugar output, excluding sugar from molasses, remained at the level of the previous year.

881 thousand tonnes
sugar production by Rusagro in 2019

Sales
In 2019, sugar sales increased by 46% (+319 thousand tonnes) up to 1,022 thousand tonnes. During the first nine months of the year, Rusagro sold 29% (+166 thousand tonnes) up on the same period last year, due to large stocks of sugar carried over for 2019 (651 thousand tonnes vs 440 thousand tonnes at the end of 2017) in view of the potential for increased market prices after the end of the processing season. In the fourth quarter, the sales grew by 110% (+155 thousand tonnes) due to high volumes of sugar output and limited storage capacities.

The average selling price of sugar fell by 10% to RUB 27.5/kg, excl. of VAT, following the dynamic of market prices, which went down by 12% over the year.

Consumer products
In 2019, consumer segment accounted for 22% of sales volume and 27% of earnings of Rusagro’s Sugar Business. The decrease in figures by 3 and 2 p.p., respectively, is associated with a more attractive pricing environment in the B2B segment.

Based on the year-end results, Rusagro brands strengthened their leading positions in the cube sugar market. Thus, Russkiy Sakhar again ranked number one in the “white cube sugar” segment with a volume market share of 39% (+1 p.p.), and Chaikofsky ranked number two with a share of 11%. Brownie as usual took first place of the market of brown cube sugar with a share of 29%. All three brands boosted their consumer awareness and loyalty through the effective promotion campaign and sales in 2019. The highest results were achieved by Russkiy Sakhar brand, with the awareness rate of 93% (+2 p.p.), loyalty – 62% (+3 p.p.).
**EXPORT**

In 2019, Rusagro exported 27 thousand tonnes of sugar (-33% year-on-year), 157 thousand tonnes (+8%) of beet pulp, and 8 thousand tonnes (-22%) of betaine. Half of total sugar volume (50%) was sold to Kazakhstan and almost one third (31%) – to Belarus. In 2018, 65% of the pulp was sold to the Scandinavian countries, but in 2019, the directions of sales changed due to better harvest of grains in Northern Europe. The flow of goods was re-directed into Southern Europe and China, where the imports of feed products from Russia was first permitted in the autumn of 2019. In 2019, Rusagro also exported pulp to Great Britain for the first time, which acquired 26 thousand tonnes and became the largest buyer in the reporting period. Most of the betaine (41%) was sold to Belgium.

**FINANCIAL RESULTS**

In 2019, Rusagro’s Sugar Business sales increased by 30% (+RUB 7.1 billion) to RUB 31.2 billion. This growth in sales was attributable to a 46% increase in sales due to large carry-over balances and high yield of sugar beets in Russia. Meanwhile, the adjusted earnings before, interest, taxes, depreciation and amortisation (EBITDA) dropped by 18% (-RUB 0.9 billion) to RUB 4.0 billion. Profit growth was constrained by lower sugar selling prices driven down by falling market prices on the back of sugar oversupply in Russia. As a result, adjusted EBITDA margin decreased from 20 to 13% (-7 p.p.).

**PLANS FOR 2020**

Given the likely continuation of sugar overproduction in Russia, Rusagro will focus on increasing production efficiency through the reduction of sugar losses and production costs. The important aspects of these effects include the efficient operation of the molasses processing plants with the key priority given to innovations and automation of production, including «Raw Materials Management» and «Smart Production» projects.

As for sales, the Company will remain focused on priority industrial consumers and the retail segment. The focus will be on the development of cereals line, first of all through the increase of distribution volumes and channels and the upgrade of Tyeplye Traditsii brand awareness, including through TV advertising.
Since 2015, when a slaughterhouse and a pork processing plant were established, Rusagro managed to grow sales volumes of processed pork by five times. Particularly, consumer products sales increased up to 16 thousand tonnes.
OVERVIEW OF PORK MARKET IN RUSSIA

DOMESTIC PRODUCTION

In 2019, Russia produced 3.9 million tonnes of pork in slaughtered weight, showing a year-on-year increase of 5%. The production growth was driven by the expansion of the industrial segment up to 87% with a year-on-year increase of 2 p.p. Thus, pork production by agricultural enterprises went up by 7% (+0.2 million tonnes) to 3.4 million tonnes. Three major players of the market – Velikoluksky pig-breeding complex, Cherkizovo and Rusagro – increased their production by 0.1 million tonnes.

Meanwhile, the production volumes of farm enterprises and private farm households are still on the downward trend – their annual share declined from 15 to 13%, whereas in 2015 they accounted for one fifth of domestic production. Due to tougher competition with large producers, in 2019 the farm enterprises and private farm households produced 0.5 million tonnes of pork in slaughtered weight - down by 7% year-on-year.

According to the Federal State Statistics Service, in 2019, pork consumption in Russia increased by 4% to 4.0 million tonnes per year, amounting to 27 kg of pork annually per person. The reason behind such growth was the decline in prices for pork products as a result of increasing market supply.

Pork production in Russia in slaughtered weight in 2015-2019, million tonnes

<table>
<thead>
<tr>
<th>Year</th>
<th>Pork Production</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>3.1</td>
</tr>
<tr>
<td>2016</td>
<td>3.4</td>
</tr>
<tr>
<td>2017</td>
<td>3.5</td>
</tr>
<tr>
<td>2018</td>
<td>3.7</td>
</tr>
<tr>
<td>2019</td>
<td>3.9</td>
</tr>
</tbody>
</table>

| Source: Federal State Statistics Service |

1. Excluding the pork produced in the Republic of Crimea
**KEY PLAYERS**

In 2019, seven largest pork producers accounted for 1.9 million tonnes of pork in live weight (1.7 million tonnes in slaughtered weight), an equivalent of 43% of total domestic production. Over the year, market leaders increased their output by 0.2 million tonnes.

5.6%  
**Rusagro’s share in pork production in Russia in 2019**

The largest pork producers in Russia in 2019, %

<table>
<thead>
<tr>
<th>Rank</th>
<th>Name</th>
<th>Share</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Miratorg</td>
<td>9.8%</td>
<td>−0.6 p.p.</td>
</tr>
<tr>
<td>2</td>
<td>Cherkizovo</td>
<td>6.3%</td>
<td>+0.2 p.p.</td>
</tr>
<tr>
<td>3</td>
<td>Velikoluksky pig-breeding complex</td>
<td>6.1%</td>
<td>+0.8 p.p.</td>
</tr>
<tr>
<td>4</td>
<td>Rusagro</td>
<td>5.6%</td>
<td>+0.2 p.p.</td>
</tr>
<tr>
<td>5</td>
<td>Agro Group</td>
<td>5.6%</td>
<td>+1.9 p.p.</td>
</tr>
<tr>
<td>6</td>
<td>Agro-Belogorie</td>
<td>5.5%</td>
<td>+0.1 p.p.</td>
</tr>
<tr>
<td>7</td>
<td>AgroPromkomplektatsiya</td>
<td>4.6%</td>
<td>−0.1 p.p.</td>
</tr>
</tbody>
</table>

Source: National Pig Producers Union of Russia

Miratorg is the market leader with a share of 9.8% (−0.6 p.p.) and production capacity of 427 thousand tonnes of pork in live weight. In the reporting period, output rate of the company remained almost the same (+1%, or +5 thousand tonnes).

Having stepped up the production by 36 thousand tonnes (+14%), Cherkizovo secured its position of the second largest pork producer in Russia with a production share of 6.3% (+0.2 p.p.) and an output volume of 286 thousand tonnes.

The third place with a share of 6.1% (+0.8 p.p.) belongs to the Velikoluksky pig-breeding complex that has increased the production volume by 51 thousand tonnes (+24%) as a result of the launch of new production facilities.

Rusagro ranked forth with an output volume of 243 thousand tonnes and a share of 5.6% (+0.2 p.p.). Driven by new productions facilities launched in the Tambov Region in 2019, the Company increased its output rate by 25 thousand tonnes (+11%). The increase in the production output as a result of purchasing 100% of the share capital in KapitalAgro was recognised in 2018 ranking.

Agro Group for the first time entered the ranking of producers with a production of over 200 thousand tonnes of pork in live weight. With a difference equal to 1 thousand tonnes, the company ranked fifth with a share of 5.6% (+1.9 p.p.); it has increased its production by 92 thousand tonnes (+61%) and reached 242 thousand tonnes due to acquiring 100% of the share capital of JSC Kudryashovskoe from LLC Kopitaniya.

Agro-Belogorie and AgroPromkomplektatsiya placed sixth and seventh with shares of 5.5% (+0.1 p.p.) and 4.6% (−0.1 p.p.), respectively. In 2019, Agro-Belogorie increased the output by 19 thousand tonnes (+9%) and AgroPromkomplektatsiya - by 9 thousand tonnes (+5%).
## EXPORTS AND IMPORTS

In 2019, exports of pork in slaughtered weight from Russia continued the upward trend and reached 106 thousand tonnes, showing a year-on-year increase of 16%. In addition, pork exports increased by 58% (+18 thousand tonnes) and reached 49 thousand tonnes; on the other hand, pork offal exports showed a decline by 5% (~3 thousand tonnes) and stood at 57 thousand tonnes. The bulk (93%) of the total volume was exported to Hong Kong, Ukraine, Vietnam, and Belarus, with Belarus and Ukraine purchasing mainly pig meat, and Hong Kong and Vietnam – pork offal.

**106 thousand tonnes**  
**+16%**  
**pork meat and pork offal exports from Russia in 2019**

Exports and imports of pork in slaughtered weight in 2015–2019, thousand tonnes

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports</th>
<th>Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>'19</td>
<td>106</td>
<td>83</td>
</tr>
<tr>
<td>'18</td>
<td>91</td>
<td>86</td>
</tr>
<tr>
<td>'17</td>
<td>68</td>
<td>292</td>
</tr>
<tr>
<td>'16</td>
<td>51</td>
<td>283</td>
</tr>
<tr>
<td>'15</td>
<td>17</td>
<td>332</td>
</tr>
</tbody>
</table>

Source: Federal Customs Service of Russia

Exports to Ukraine and Belarus grew by 51% (+16 thousand tonnes) to 47 thousand tonnes, including 43 thousand tonnes of pork meat and 5 thousand tonnes of pork offal. Hong Kong purchased 36 thousand tonnes (+4%) of offal. Vietnam – 14 thousand tonnes (~26%) of offal. In 2019, unstable political environment of the region and accelerated slaughtering of livestock at the beginning of the year restricted the exports to Hong Kong. Exports to Vietnam went down due to closer monitoring of transit shipping to this country, and Russia received the first official export permit only at the end of 2019.

**35%**  
**share of Russian pork export sold to Hong Kong**  

Key destinations of pork exports in 2015–2019, %

<table>
<thead>
<tr>
<th>Country</th>
<th>'19</th>
<th>'18</th>
<th>'17</th>
<th>'16</th>
<th>'15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong</td>
<td>35%</td>
<td>14%</td>
<td>19%</td>
<td>28%</td>
<td>23%</td>
</tr>
<tr>
<td>Ukraine</td>
<td>26%</td>
<td>68%</td>
<td>68%</td>
<td>51%</td>
<td>17%</td>
</tr>
<tr>
<td>Belarus</td>
<td>18%</td>
<td>11%</td>
<td>11%</td>
<td>11%</td>
<td>11%</td>
</tr>
<tr>
<td>Vietnam</td>
<td>13%</td>
<td>13%</td>
<td>13%</td>
<td>13%</td>
<td>13%</td>
</tr>
<tr>
<td>Others</td>
<td>7%</td>
<td>7%</td>
<td>7%</td>
<td>7%</td>
<td>7%</td>
</tr>
</tbody>
</table>

Source: Federal Customs Service of Russia

In 2019, pork imports to Russia decreased by 3% (~3 thousand tonnes) to 83 thousand tonnes. Though Brazil was re-opened for pork imports to the Russian market at the end of 2018, pork imports from this country showed just a modest rise (from 12 thousand tonnes in 2018 to 43 thousand tonnes in 2019). On the back of growing domestic demand in Russia, Brazil prioritised pork exports to Asian markets since the spread of the African Swine Fever (ASF) boosted the prices for port in that region. However, before the introduction of bans on imports, Brazil sold 242 thousand tonnes of pork to Russia in 2017.

**83 thousand tonnes**  
**-3%**  
**pork imports to Russia in 2019**

Key destinations of pork imports in 2015–2019, %

<table>
<thead>
<tr>
<th>Country</th>
<th>'19</th>
<th>'18</th>
<th>'17</th>
<th>'16</th>
<th>'15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>52%</td>
<td>52%</td>
<td>52%</td>
<td>52%</td>
<td>52%</td>
</tr>
<tr>
<td>Chile</td>
<td>27%</td>
<td>27%</td>
<td>27%</td>
<td>27%</td>
<td>27%</td>
</tr>
<tr>
<td>Argentina</td>
<td>13%</td>
<td>13%</td>
<td>13%</td>
<td>13%</td>
<td>13%</td>
</tr>
<tr>
<td>Belarus</td>
<td>6%</td>
<td>6%</td>
<td>6%</td>
<td>6%</td>
<td>6%</td>
</tr>
<tr>
<td>Others</td>
<td>61%</td>
<td>61%</td>
<td>61%</td>
<td>61%</td>
<td>61%</td>
</tr>
</tbody>
</table>

Source: Federal Customs Service of Russia
PRICES

In 2019, as a result of growth of domestic pork and poultry supply, the average market price for live pigs went down by 9% and stood at RUB 88 per kilogram, exclusive of VAT. During the year, the month to month variation of prices was spurred by the seasonality of demand for meat products and by the trends in supply of pork and poultry in the domestic market. Market prices for live pork reached the maximum value of RUB 102 per kilogram, exclusive of VAT, in July and the minimum value of RUB 72 per kilogram, exclusive of VAT, in December.

88 RUB per kilogram, exclusive of VAT -9%
average price for pork in live weight in Russia in 2019

Changes in the average market prices for live pigs in Russia in 2018–2019, RUB/kg, excl. of VAT

At the beginning of 2019, due to seasonal reduction in demand, prices for live pigs dropped by 10%, from RUB 97 per kilogram in December 2018 to RUB 87 per kilogram in February 2019. The recovery in prices after Great Lent was noted in March and April (+4% and +7%, respectively). Q1 2019 average price was RUB 88 per kilogram, 10% above the level of same period in 2018 due to relative high for the season demand for meat products and smaller supply of poultry.

However, in May and June there was no expected seasonal rise in prices on the back of the expansion of pork and poultry production and increased pork imports (due to improved opportunities for supplies from Latin America). The prices fell to RUB 95 per kilogram in May (−1% to April) and to RUB 89 per kilogram in June (−7% to May). Compared with Q2 2018, the prices declined by 3%.

The resumption of demand, in the light of traditionally low supply of pork in the summer months, pushed the prices up to RUB 102 per kilogram (+15% month-on-month) in July. But already in September the prices dropped to RUB 82 per kilogram (−20% to July) because of an outbreak of African Swine Fever in the Kursk Region, gaining an additional increase in supply of live pigs in the Central Federal District. Compared to Q3 2018, the prices went down by 16%.

After insignificant price adjustment in October (+3% vs September) as an offset of a 12% price cut in September, by August the prices resumed their downward slide despite the higher demand from the meat processing sector. In the view of growing supply of animal protein in November and December, including due to the making-up of poultry production and traditionally low demand in this period of the year, the prices reached a record low of RUB 72 per kilogram by the end of the year. Compared to Q4 2018, the prices dropped by 21%.

Source: Global Monitoring
OUTLOOK FOR 2020

In 2020, pork production in Russia will keep on rising may expand by another 3-4%. Vertically integrated agricultural enterprises will still remain the key growth driver, while the private farm households and farm enterprises will stay on downward trend. Chicken production may also increase by 1-2% and weak price competitiveness of chicken in the world market will forestall stepping up exports to a level enough to underpin the domestic prices.

With the increased production of both categories of proteins in 2020, the development of new export distribution channels will be crucial for prices. Except for the season variation, particularly the rise of price in April associated with the beginning of the grill season, price advance will be sensitive to the developing supplies to the countries that are already buyers of Russian products, as well as to the opening of new destinations, primarily Vietnam and China.

The re-distribution of world pork flows to Asian countries offers new opportunities for Russian exports to such countries as Mongolia, Kyrgyzstan, and Kazakhstan. Though in these states there is no traditions of eating pork, they show the need for import supplies for the meat processing industry.

The Hong Kong market with a total domestic consumption of pork of 200 thousand tonnes remains attractive for exporting pork offal and cuts.

The near-abroad countries will remain promising areas for exports in 2020. Certain territories of Ukraine are still depending on Russian supplies because of political conflict. Due to geographical proximity, the demand for Russian pork meat from Belarusian buyers will be strong.

At the moment, the Vietnam market is a promising destination for pork exports, as its capacity by the end of 2019 is estimated at 2.2 million tonnes. Against the spreading of African Swine Fever and reduction of livestock in 2020, there is a potential for further increase of import deliveries in this direction. Another factor favourable for this is the conclusion of an agreement on Vietnam’s accession to the Eurasian Economic Union, which brought the duty for Russian suppliers to Vietnam down to 0%.
MEAT BUSINESS RESULTS IN 2019A

BUSINESS OVERVIEW

Meat segment in Rusagro was launched in 2008 as a vertically integrated business for livestock breeding and production of pork products sold under the Slovo Myasnika brand. Assets of the Business are located in the Central Russia in the Tambov Region and the Belgorod Region. In 2021, the launch of a pig farm is planned in the Far East of Russia in the Primorye Territory.

- 3 compound feed mills: Production of granular feed for animals of all technological cycles. Combined feed production capacity - 900 thousand tonnes per year
- 2 breeding farms: For the reproduction of the herd for 15 thousand sows
- 18 commercial pig breeding complexes: A modern environmentally friendly production with a high level of automation and biosecurity. The maximum livestock size is 2.5 million animals. The maximum commercial pork production capacity is c. 290 thousand tonnes in live weight
- 2 slaughtering and meat processing plants: Includes all stages of processing and production of finished products: slaughter line, deboning workshop, chilled semi-finished food production workshop, chilled meat packaging workshop and a recycling workshop for processing technical waste. The plants have a food safety management system in place, which mitigates risks at all stages of production. Slaughtering capacity - 540 heads/hour (2.2 million heads per year). Deboning capacity - 440 heads/hour (1.6 million heads)
- 2 elevators: Storing grain for feed production at our own elevators allows purchasing ingredients at the most optimal times and at periods of low prices. Storage capacity - 160 thousand tonnes
- 2 production and technical laboratories: Quality control by means of high accuracy chemical, technical and bacteriological analyses.

For more information on the environment impact of business and measures to reduce harmful effects, see the section “Corporate Social Responsibility” on page x

55 product items: The products are sold in 20 thousand retail outlets of the federal retail chains
INVESTMENTS

In 2019, Rusagro invested RUB 10.9 billion in the Meat Business, up 16% against the previous year.

The bulk of the funds, RUB 5.1 billion, was allocated for the implementation of a project in the Primorye Territory and the Tambov Region. In 2019, the project in the Tambov Region and KapitalAgro, acquired in 2018, drove up the Company’s production of live pigs to 243 thousand tonnes (+19%). In 2023, when all projects, including that in the Primorye Territory, achieve their full capacity, Rusagro will be producing about 355 thousand tonnes of pork in live weight. Another RUB 1.4 billion were invested in a project to increase the capacity of a slaughterhouse in the Tambov Region; as a result, Rusagro will be able to increase the population of pigs for slaughter by 33%.

To support the current capacities of the Meat Business, the Company spent 17% of its budget. In 2019, supporting investments were doubled year-on-year to carry out the overhaul of the production facilities in the Belgorod Branch, costing RUB 0.7 billion.

Investments in 2015-2019, RUB billion

<table>
<thead>
<tr>
<th>Year</th>
<th>Investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>5.2</td>
</tr>
<tr>
<td>2016</td>
<td>8.1</td>
</tr>
<tr>
<td>2017</td>
<td>6.3</td>
</tr>
<tr>
<td>2018</td>
<td>9.4</td>
</tr>
<tr>
<td>2019</td>
<td>10.9</td>
</tr>
</tbody>
</table>

10.9 RUB billion investments into the Meat Business in 2019

Construction of pig farms with a capacity of 75 thousand tonnes of pork in live weight.

Investments: RUB 33 billion.

Construction of pig farms with a capacity of 58 thousand tonnes of pork in live weight.

Investments: RUB 12 billion.

Increase in slaughtering capacity by 33%.

Investments: RUB 2 billion.

Acquisition of CapitalAgro, a pork producer with a capacity of up to 30 thousand tonnes.

Investments: RUB 1.8 billion.

Acquisition of 22.5% in Agro-Belgororie Group of companies, a pork producer with a capacity of 239 thousand tonnes.

Investments: RUB 8.5 billion.
**“PURCHASING A PORK PRODUCING AND PROCESSING PLANT IN THE BELGOROD REGION” DEAL**

**Status:**
The assets were integrated into the Belgorod branch of LLC Tambov Bekon, legal entities acquired under the deal were dissolved in 2019

**Facilities:**
- 3 pig farms for 16 thousand sows;
- 1 pig breeding farm for 3 thousand sows;
- expansion of the compound feed mill by 130 thousand tonnes/year.

**Production capacity:**
up to 30 thousand tonnes of pork in live weight

**Deal cost:**
RUB 1.8 billion

**Deal closing:**
August 2018

**Deal:**
purchasing 100% of share capital of CJSC KapitalAgro and LLC TD KapitalAgro

**“EXPANDING SLAUGHTER CAPACITY IN THE TAMBOV REGION” PROJECT**

**Status:**
LAUNCHED IN Q4 2019

**Slaughtering capacity:**
increase in the slaughtering capacity by 33%

**Project cost:**
RUB 2.0 billion, excl. of VAT

**Timeline:**
2018-2020

**Time to full production:**
Q2 2020

**“BUILDING NEW PIG FARMS IN THE TAMBOV REGION” DEAL**

**Status:**
DEAL CLOSED

**Facilities:**
- 6 pig farms for 18 thousand sows;
- 1 breeding farm for 3 thousand purebred sows;
- 1 seed production workshop;
- 1 compound feed mill with a capacity of 300 thousand tonnes per year and an elevator with a capacity of 120 thousand tonnes;
- 1 slaughter shop with a capacity of 180 heads/hour (0.7 million heads/year);
- 1 industrial waste recycling plant.

**Production capacity:**
75 thousand tonnes of pork in live weight

**Project first stage construction cost:**
RUB 33 billion, exclusive of VAT (net of investments in land acquisition and development of home-grown feed base).

**Construction time:**
2016-2021

**First production:**
mid-2021

**Time to full production:**
mid-2023

**“BUILDING NEW PIG FARMS IN THE PRIMORYE TERRITORY” PROJECT**

**Status:**
LAUNCHED IN 2019

**Facilities:**
- 3 pig farms for 16 thousand sows;
- 1 pig breeding farm for 3 thousand sows;
- expansion of the compound feed mill by 130 thousand tonnes/year.

**Production capacity:**
58 thousand tonnes of pork in live weight per year.

**Deal cost:**
RUB 12 billion, excl. of VAT

**Deal:**
purchasing a share of 22.5% in Agro-Belogorie Group of companies

**Construction time:**
2016-2019

**First production:**
mid-2019

**Time to full production:**
Q1 2020
INFORMATION TECHNOLOGIES AND INNOVATIONS

In 2019, the Meat Business of Rusagro prepared and approved the Business Digital Maturity Boosting Strategy until 2025, consisting of three stages: Certainty (2019–2021), Digital transformation in action (2021–2024) and Digital company (2024–2025). In 2019, initial efforts were made under the first stage of the Strategy.

The first part of the strategy mainly focuses on two groups of processes - pigs raising and feed production. The key goals of the Digital Transformation of the first stage are as follows:

- Better management decision-making;
- Minimisation of the human factor in data generation - priority of automated data feed over manual data input;
- Automation and robotisation of standard operations;
- Reduction of costs and operating losses;
- Risk mitigation.

The first stage of the digital transformation includes the following areas:

1. Automation of feed supply management through a hardware-software solution that allows ruling out the human factor when ordering feed
2. Automation of the control procedures for admitting vehicles to production sites in order to manage biosecurity
3. Fine management of the logistics of products inside the meat processing site with minimal human involvement
4. Automation of production accounting and shipment of products at an industrial waste recycling plant
5. Implementation of the “Mercury” state automated information system of veterinary accompanying documents in order to comply with the government requirements and to reduce the time spent on shipment of finished products
6. Implementation of pilot projects on the use of neural networks, in particular computer vision, to address the problems of monitoring production figures.
OPERATIONAL HIGHLIGHTS

Production

In 2019, Rusagro increased the total livestock by 14% to 2.1 million commercial pigs. The increase in livestock in the Tambov Region (+13%) is linked with the population of new pig farms, and in the Belgorod Region (+15%) - with the integration of CapitalAgro and improved animal health. Such increase in the livestock population drove up the number of animals for slaughter by 21% (up to 1.7 million heads), as well as the number of heads for deboning by 31% (up to 1.5 million heads). The latter was also promoted by higher performance of the deboning shop improved through the upgrade of the boning operators skills and reduced operational downtime.

<table>
<thead>
<tr>
<th>Year</th>
<th>Belgorod Region</th>
<th>Tambov Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>'15</td>
<td>739</td>
<td>231</td>
</tr>
<tr>
<td>'16</td>
<td>912</td>
<td>843</td>
</tr>
<tr>
<td>'17</td>
<td>1,825</td>
<td>567</td>
</tr>
<tr>
<td>'18</td>
<td>1,773</td>
<td>1,193</td>
</tr>
<tr>
<td>'19</td>
<td>1,821</td>
<td>1,460</td>
</tr>
</tbody>
</table>

Rusagro’s pig livestock in 2015-2019, thousand heads

To meet growing demand, Rusagro’s compound feed mills ramped up compound feed production by 32% up to 751 thousand tonnes in 2019. That increase was attributable to the commissioning of a new granulating line in the Tambov Region (as part of the project to launch new pig farms) and the higher performance of a plant in the Belgorod Region as a result the reduced scheduled maintenance shutdown.

<table>
<thead>
<tr>
<th>Year</th>
<th>Belgorod Region</th>
<th>Tambov Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>'15</td>
<td>579</td>
<td>579</td>
</tr>
<tr>
<td>'16</td>
<td>598</td>
<td>598</td>
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<tr>
<td>'17</td>
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</tr>
<tr>
<td>'18</td>
<td>567</td>
<td>567</td>
</tr>
<tr>
<td>'19</td>
<td>751</td>
<td>751</td>
</tr>
</tbody>
</table>

Production of compound feed by Rusagro in 2019

In 2019, Rusagro produced 243 thousand tonnes of pork in live weight, +19% (+39 thousand tonnes) year-on-year. This growth was pushed by the expansion of capacities in the Tambov Region and the improved performance. In particular, the health status of animals at the sites previously owned by CapitalAgro was improved, and the fourth compartment was received at new complexes in the Tambov Region.

<table>
<thead>
<tr>
<th>Year</th>
<th>Belgorod Region</th>
<th>Tambov Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>'15</td>
<td>243</td>
<td>1,590</td>
</tr>
<tr>
<td>'16</td>
<td>204</td>
<td>1,825</td>
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<tr>
<td>'17</td>
<td>207</td>
<td>1,773</td>
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<tr>
<td>'18</td>
<td>190</td>
<td>1,821</td>
</tr>
<tr>
<td>'19</td>
<td>187</td>
<td>2,081</td>
</tr>
</tbody>
</table>

Rusagro’s pork production in live weight in 2019

Rusagro’s pork production in live weight in 2015-2019, thousand tonnes

Volume of compound feed production by Rusagro in 2015-2019, thousand tonnes

In 2019, Rusagro produced 243 thousand tonnes of pork in live weight, +19% (+39 thousand tonnes) year-on-year. This growth was pushed by the expansion of capacities in the Tambov Region and the improved performance. In particular, the health status of animals at the sites previously owned by CapitalAgro was improved, and the fourth compartment was received at new complexes in the Tambov Region.

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<tbody>
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<td>231</td>
</tr>
<tr>
<td>'16</td>
<td>912</td>
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</tr>
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<td>'17</td>
<td>1,825</td>
<td>567</td>
</tr>
<tr>
<td>'18</td>
<td>1,773</td>
<td>1,193</td>
</tr>
<tr>
<td>'19</td>
<td>1,821</td>
<td>1,460</td>
</tr>
</tbody>
</table>

Rusagro’s pig stock in 2019

Rusagro’s pork production in live weight in 2019

Rusagro’s pig livestock in 2015-2019, thousand heads
Sales

Following the expansion of production, Rusagro has been racking up the sales of meat products. In seeking to create the added value, the Company has been deliberately reducing the sales of live pigs (−77% in 2019 against that in 2015) over the last five years to support the output of meat products and to promote sales of consumer products under own “Slovo Myasnika” brand.

By the end of 2019, Rusagro sold 208 thousand tonnes of live pigs and pork products, outperforming the previous year figure by 23% (+39 thousand tonnes).

Sales of live pigs grew by 22% (+6 thousand tonnes) and reached 33 thousand tonnes owing to the full utilisation of the slaughter capacities fuelled by the increased production of live pigs. Sales of half carcasses increased by 9% (+3 thousand tonnes) to 32 thousand tonnes. Meanwhile, the sales of deboning products experienced the sharpest increase, by 24 thousand tonnes. Sales of large cuts and industrial products went up by 32% and stood at 97 thousand tonnes.

Sales of consumer products remained at around the same level as in 2018. A number of product mix items were withdrawn from production towards more profitable ones. The volume of offal sales grew by 33% (+6 thousand tonnes) to 24 thousand tonnes, mainly due to the increased number of export products.

Consumer products

In 2019, consumer segment accounted for 23% of sales and 35% of revenues of Rusagro’s Meat Business. The decline in figures by 5 and 7 p.p. respectively is associated with a slowdown in sales of consumer large cuts driven by the decreasing returns of this category and switch of the product mix to such products as marinaded pork, grill pork, small cuts and minced meat.

As part of the strategy for capturing the retail market, the Company pushed up the sales of its own branded products and enhanced the brand awareness. Sales of the products under Slovo Myasnika brand increased by 12% - from 11 to 13 thousand tonnes. According to Ipsos Comcon, brand awareness increased by 4 p.p. year-on-year and reached 23% in the Central Federal District, which is the major direction of sales, and by 5 p.p. – 19% across Russia. This was facilitated, among other things, by the first advertising campaign undertaken in 2019 with the demonstration of ads in TV programmes in the Moscow Region.
Exports
In 2019, Rusagro increased the exports of meat products by 43% (+5 thousand tonnes) to 15 thousand tonnes. Almost the half (49%) of the exported products accrues to half carcasses that were sold in Ukraine and Belarus, 27% – to offal, which is mainly purchased in Hong Kong and Vietnam, and 24% – to large cuts and industrial products. In 2019, the uplift of export sales was primarily boosted by the opening of Belarusian market (+5 thousand tonnes) and the promotion of sales to Ukraine (+2 thousand tonnes), resulting in higher sales of half carcasses (+4 thousand tonnes) and large cuts (+1 thousand tonnes).

15 thousand tonnes  +43%
Rusagro’s exports of meat products in 2019

Export destinations of Rusagro’s meat products in 2019, %

Prices
In 2019, the average annual sale price of pork in live weight declined by 13% and stood at RUB 75 per kilogram, exclusive of VAT. This is associated to the decrease in market prices for live pigs (by 9% - to RUB 88 per kilogram, excl. of VAT) as a result of the growth of production capacity and the change of non-marketable live pigs in the structure of sales due to the increase in production of meat products (half carcass, large cuts, industrial products, small cuts and semi-finished products, and offal). Prices for other categories of products were also pushed down by higher production of meat products in Russia.

132 RUB per kilogram, exclusive of VAT  -5%
sales price of meat products by Rusagro in 2019

Rusagro’s sales prices for live pigs and meat products in 2015-2019, RUB per kilogram, excl. of VAT

15  RUB per kilogram, exclusive of VAT  -13%
sales price of live pigs by Rusagro in 2019
FINANCIAL RESULTS

In 2019, sales of Rusagro’s Meat Business grew by 16% (RUB +3.5 billion) and reached RUB 25.8 billion. A 23% increase in sales volumes boosted by the higher productive capacity offered a favourable offset to the falling sales prices for live pigs and meat products. However, the rise in production costs led to the decline of adjusted earnings before, interest, taxes, depreciation and amortisation (EBITDA) by 30% (–RUB 1.1 billion) to RUB 4.9 billion.

Revenues of Rusagro’s Meat Business in 2019

Sales of Rusagro’s Meat Business in 2015–2019, RUB billion

$25.8$ RUB billion

Adjusted EBITDA of Rusagro’s Meat Business in 2019

Profit of Rusagro’s Meat Business in 2015–2019, RUB billion

$4.9$ RUB billion

An increase in production costs of pigs in live weight was mainly attributable to the growth of feed costs due to higher price for 2018 grain crop against that in 2017. Other contributors to the rise in production costs were additional measures to upgrade biosecurity and to improve stock health status. Adjusted EBITDA margin decreased from 31 to 19% (-12 p.p.).

PLANS FOR 2020

In 2020, Rusagro plans to increase the livestock and to ramp up the production of live pigs. The growth pattern will be followed through the achievement of target production indicators on new pig farms populated in 2019 in the Tambov Region and the facilities acquired at the end of 2018 in the Belgorod Region. The growing production of live pigs will bring about higher production of compound feed.

The project for expanding the slaughtering capacity completed in 2019 will enable to increase the number of pigs for slaughter by 33% already in the second quarter 2020 and to output more meat products, such as small and large cuts. The Company is committed to further promote the export deliveries, however the results in this area will be heavily dependent on the trade policies of countries, which markets are of highest priority for Russian pork export. The pricing environment in the pork market will be under pressure from an oversupply of pork and poultry. Expanding pork exports to a volume sufficient to influence the pricing continues to be a challenge without opening new markets, such as China market.
In 2015 - 2019, production of oil-and-fat products went up four times from 431 to 1,876 thousand tonnes through the launching of refining, deodorisation, and bottling shop in 2018, as well as the rent of two oil extraction plants and three oil and fats plants of the Solnechnye Produkty holding.
RUSSIAN MARKET OVERVIEW

PRODUCTION

Production of crude vegetable oil

In the 2018/2019 season, the production of vegetable oil increased by 8% and reached 6.3 million tonnes. The growth was driven by sunflower oil, which occupied 80% of the total range of products. As a result of a larger sunflower yield in 2018, sunflower oil production reached 4.9 million tonnes (+9%). In 2019, oilseed yield increased again, so in the 2019/2020 season oil production may increase to 6.8 million tonnes (+9%), including 5.6 million tonnes (+13%) of sunflower oil. In the meantime, due to a drop in soybean yields in the Far East, two large oil extraction plants in this region were shut down, which led to a decrease in soybean oil production.

Production of crude sunflower oil in Russia in 2018/2019 season

<table>
<thead>
<tr>
<th>Year</th>
<th>Production</th>
</tr>
</thead>
<tbody>
<tr>
<td>'15/'16</td>
<td>6.8</td>
</tr>
<tr>
<td>'16/'17</td>
<td>5.7</td>
</tr>
<tr>
<td>'17/'18</td>
<td>5.8</td>
</tr>
<tr>
<td>'18/'19</td>
<td>6.3</td>
</tr>
<tr>
<td>'19/'20</td>
<td>6.8</td>
</tr>
</tbody>
</table>

Source: APK-Inform agribusiness consultant agency

Production of industrial fats

Over the past five years, the production of industrial fats in Russia has remained steady at 1.2 million tonnes, showing positive dynamics every year, except for 2018, when there was a transition to formulas without trans fats. In 2019, the market recovered and the production of industrial fats grew by 4% (+43 thousand tonnes) almost to the level of 2017. Three categories of industrial fats – universal and confectionery fats, industrial margarines and milk fat substitutes – each occupy one-third of the total output. Particularly, milk fat substitutes (+5%, or 19 thousand tonnes) and deep-frying oil, whose production amounted to 65 thousand tonnes with an increase of 19 thousand tonnes year-on-year, have been experiencing significant growth.

Production of consumer oil-and-fat products

Over the past three years, the production of consumer oil-and-fat products in Russia has remained at approximately the same level and in 2019 amounted to 3.4 million tonnes. At the same time, according to Rusagro’s estimates, the production of bottled oil rose by 3% during the reporting period (+57 thousand tonnes), and that of margarines (including in a monolith form) and spreads, as well as mayonnaise and mayonnaise-based sauces, decreased by 5 and 2%, respectively. The sales of oil were pushed up by the growing demand from export destinations, while mayonnaises, margarines and spreads were confronted with a drop in demand as a result of changes in consumer preferences.

Production of consumer oil-and-fat products in Russia in 2015–2019, thousand tonnes

<table>
<thead>
<tr>
<th>Year</th>
<th>Bottled vegetable oil</th>
<th>Mayonnaise and mayonnaise-based sauces</th>
<th>Margarine and spreads</th>
</tr>
</thead>
<tbody>
<tr>
<td>'15</td>
<td>3,188</td>
<td>65</td>
<td>598</td>
</tr>
<tr>
<td>'16</td>
<td>3,202</td>
<td>831</td>
<td>651</td>
</tr>
<tr>
<td>'17</td>
<td>3,361</td>
<td>849</td>
<td>694</td>
</tr>
<tr>
<td>'18</td>
<td>3,344</td>
<td>866</td>
<td>627</td>
</tr>
<tr>
<td>'19</td>
<td>3,355</td>
<td>850</td>
<td>598</td>
</tr>
</tbody>
</table>


1. Including sunflower oil fractions.
2. Includes margarines in a monolith form. The volume of production of packaged margarine in Russia in 2019 was about 82 thousand tonnes (-2% year-on-year)
KEY PLAYERS

Major producers of crude sunflower oil

In the 2018/2019 season, five players accounted for 43% of the total production of crude sunflower oil in Russia. As estimated by the All-Russian Union of Oils and Fats and the Company, Rusagro became the leader in the production output. Due to the launch of two oil extraction plants previously operated by Solnechnye Produkty, the Company expanded the production of crude sunflower oil from 175 thousand tonnes in the 2017/2018 season to 610 thousand tonnes in the 2018/2019 season and increased its share to 12% EFKO, which previously ranked first with a volume of 453 thousand tonnes, took second place with a share of 10%, despite an increase to 482 thousand tonnes. Yug Rusi retained third place with a share of 9%.

Major producers of industrial fats

The market of industrial fats in Russia is represented by three key producers, the total share of which in 2019 amounted to 75%. The major player in the market is EFKO: in 2019, this company occupied 45% (-2 p.p.) of the Russian industrial fats market. As a result of capacity expansion, Rusagro took second place among the players in the Russian market of industrial fats and increased its share from 1 to 21%.

Major producers of bottled vegetable oil

The major producer of bottled vegetable oil in Russia is Yug Rusi company. Since this company is not part of the All-Russian Union of Oils and Fats, Rusagro made an expert estimate of its output at a level of 434 thousand tonnes, and so its share in Russian production is 23%. Blago company produced 222 thousand tonnes of oil in 2019 and took second place with a share of 12%. Rusagro may qualify for fifth place in the ranking with a share of 6%.

No. 2

Rusagro’s place among producers of industrial fats in Russia in 2019

Source: Russia’s Oils and Fats Union, expert assessment

Major producers of sunflower oil in Russia in 2018/2019 season, %

Major players in the industrial fats market in Russia in 2019, %

Source: Russia’s Oils and Fats Union and expert assessment based on the data from the Federal Customs Service of Russia

Source: Russia’s Oils and Fats Union, expert assessment

Footnote:
1. Data on the actual production volume of sunflower oil by Rusagro, NMZhK, Blago – the estimate of the Russia’s Oils and Fats Union, EFKO data – the estimate of the Russia’s Oils and Fats Union plus the volumes of Elite Maslo (Elite Oil) and EFKO Taman branch according to the Company’s assessment, Yug Rusi – the Company’s assessment based on the growth in proportion to the growth of vegetable oil production in Russia.
2. Data on the actual volume of production of bottled oil by Rusagro, Blago, EFKO, Bunge – an estimate of the Russia’s Oils and Fats Union, data on Yug Rusi and other players – the Company’s estimate based on the data from the Federal Customs Service of Russia, AC Nielsen and BusinessStat.
Major producers of consumer margarine

The market of consumer margarine in Russia is represented by key four players. The largest producer of margarine with a share of 50% is Rusagro. In 2019, on the back of the growth of capacity, the Company increased its share by 18 p.p.

Major margarine producers in Russia in 2019, %

- Rusagro: 50%
- NMZhK: 19%
- Yanta: 4%
- Efko: 1%
- Others: 26%

Source: Russia’s Oils and Fats Union, expert assessment

Major producers of mayonnaise

There are eight major mayonnaise producers in Russia, with five largest producers holding 75% of total volumes. In 2019, the key producers of mayonnaise in Russia are Essen and Rusagro. They each produced 18% of the total domestic volumes. In the reporting period, Rusagro tripled its share and outstripped EFCO, NMZhK, and Nefis.

The largest mayonnaise producers in Russia in 2019, %

- Essen: 18%
- Rusagro: 18%
- Efko: 15%
- NMZhK: 13%
- Nefis: 11%
- Others: 25%

Source: Russia’s Oils and Fats Union, expert assessment

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1. Data on the actual volume of production of consumer margarine by Rusagro, EFKO, NMZhK, Yanta - an estimate of the Russia’s Oils and Fats Union, data on other players - the Company’s estimate based on the data from the Federal Customs Service of Russia, AC Nielsen and BusinesStat.
2. Data on the actual volume of production of mayonnaise by Rusagro, Essen, EFKO, NMZhK – an estimate of the Russia’s Oils and Fats Union, data on Nefis and other players – the Company’s estimate based on the data from the Federal Customs Service of Russia, AC Nielsen and BusinesStat.
EXPORTS AND IMPORTS

Exports and imports of crude vegetable oil

As a result of growth in the production of vegetable oil in Russia, its exports increased by 17% year-on-year in the 2018/2019 season. The exported volume of oil amounted to 3.3 million tonnes, which is equal to 52% of the total volume produced in the country. Crude sunflower oil accounted for 64% of exported oil, or 2.1 million tonnes, which is 15% more than the previous season. In the new season, exports of sunflower oil are projected to continue the upward trend (+7%), following the growth in output, and reach 2.2 million tonnes, and exports of all types of vegetable oils - 3.5 million tonnes.

2.1 million tonnes
+15%
exports of crude sunflower oil from Russia in 2018/2019 season

Exports and imports of crude vegetable oil in 2015/2016–2019/2020F seasons, million tonnes

<table>
<thead>
<tr>
<th>Season</th>
<th>Palm oil</th>
<th>Others</th>
<th>Soybean oil</th>
<th>Rape oil</th>
<th>Sunflower oil</th>
</tr>
</thead>
<tbody>
<tr>
<td>'15/'16</td>
<td>1.1</td>
<td>0.7</td>
<td>0.3</td>
<td>0.3</td>
<td>2.0</td>
</tr>
<tr>
<td>'16/'17</td>
<td>1.2</td>
<td>0.9</td>
<td>0.3</td>
<td>0.3</td>
<td>2.4</td>
</tr>
<tr>
<td>'17/'18</td>
<td>1.2</td>
<td>1.0</td>
<td>0.2</td>
<td>0.2</td>
<td>1.8</td>
</tr>
<tr>
<td>'18/'19</td>
<td>1.4</td>
<td>1.1</td>
<td>0.3</td>
<td>0.3</td>
<td>2.1</td>
</tr>
<tr>
<td>'19/'20F</td>
<td>1.2</td>
<td>0.9</td>
<td>0.3</td>
<td>0.3</td>
<td>3.5</td>
</tr>
</tbody>
</table>

Historically, major buyers of Russian crude sunflower oil are Turkey and Egypt. However, in the 2018/2019 season, Iran became the largest importing economy with a total of 643 thousand tonnes of oil imported (+218% compared to the 2017/2018 season). This development is related to the trade and economic cooperation between Iran and Russia and the competitive price of sunflower oil. Exports to Turkey, which used to be the major buyer of Russian oil, amounted to 440 thousand tonnes (+24%). Oil exports to China increased to 228 thousand tonnes (+33%), which is associated with lower production of vegetable oils in the country. On the other hand, Egypt reduced export volumes by 40%.

Imports of crude vegetable oil in 2018/2019 seasons rose by 19% and reached 1.4 million tonnes. The bulk of imports falls on palm oil, amounting to 79% of the total imported oils based on the season results. Deliveries of palm oil increased by 0.1 million tonnes (+11%) up to 1.1 million tonnes as a result of changes in the formulation standards for the production of margarines and fats. Indonesia is the major importer of palm oil; in 2018/2019 season, this country imported 0.8 million tonnes (+17%) of this product.

1.1 million tonnes
+11%
imports of palm oil to Russia in 2018/2019 season

Export destinations of crude sunflower oil in 2018/2019 season, %

<table>
<thead>
<tr>
<th>Country</th>
<th>Export Volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iran</td>
<td>530 ths t</td>
</tr>
<tr>
<td>Turkey</td>
<td>440 ths t</td>
</tr>
<tr>
<td>Egypt</td>
<td>228 ths t</td>
</tr>
<tr>
<td>China</td>
<td>254 ths t</td>
</tr>
<tr>
<td>Others</td>
<td>643 ths t</td>
</tr>
</tbody>
</table>

Sources: APK-Inform agribusiness consultant agency

Source: Federal State Statistics Service

Source: Federal State Statistics Service
**Export and import of industrial fats**

In 2019, Russia exported 73 thousand tonnes of industrial fats, which is up 7% (+5 thousand tonnes) year-on-year. Commonly exported products are universal margarines (29 thousand tonnes, -15%) and milk fat substitutes (27 thousand tonnes, +38%). Over half of industrial fats (57%) were sold to Uzbekistan (19 thousand tonnes), Tajikistan (11 thousand tonnes), and Ukraine (11 thousand tonnes).

Imports of industrial fats amounted to 174 thousand tonnes (+16%), including 77 thousand tonnes (+49%) of universal fats and 72 thousand tonnes (-8%) of cocoa butter equivalents. Over half (66%) of the export volumes were delivered from Indonesia (60 thousand tonnes, +16%) and Malaysia (56 thousand tonnes, +38%).

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**Exports and imports of consumer oil-and-fat products**

In 2019, Russia exported 746 thousand tonnes of consumer oil-and-fat products (+16%, or 101 thousand tonnes as compared to 2018), with the sales of bottled vegetable oil accounting for the majority of exports. As a result of the higher domestic output of sunflower oil, the export volume of this product category increased by 80 thousand tonnes (+17%) and reached 536 thousand tonnes. Another 122 thousand tonnes (+12%, or 13 thousand tonnes) fell on consumer margarine and spreads and 89 thousand tonnes (+10%, or 8 thousand tonnes) – on mayonnaises and mayonnaise-based sauces.

In 2019, the imports of oil-and-fat products dropped 6% to 34 thousand tonnes. The volume of imports of bottled oil remained flat with the previous year (22 thousand tonnes). The bulk of imports (92%) includes olive oil supplied from Spain (50%), Italy (41%), and Greece (6%). The volume of mayonnaise imports to Russia decreased by 23% and reached 7 thousand tonnes due to reduced supplies from Korea, Germany, Sweden, and Ukraine. Moreover, deliveries of foreign-made margarines and spreads, mainly from Italy, showed a decline of 6% and amounted to 5 thousand tonnes.

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**Exports and imports of Russian industrial fats in 2015–2019, thousand tonnes**

<table>
<thead>
<tr>
<th>Year</th>
<th>экпорт</th>
<th>импорт</th>
</tr>
</thead>
<tbody>
<tr>
<td>'19</td>
<td>174</td>
<td>73</td>
</tr>
<tr>
<td>'18</td>
<td>156</td>
<td>68</td>
</tr>
<tr>
<td>'17</td>
<td>142</td>
<td>57</td>
</tr>
<tr>
<td>'16</td>
<td>142</td>
<td>50</td>
</tr>
<tr>
<td>'15</td>
<td>133</td>
<td>48</td>
</tr>
</tbody>
</table>

Source: Federal Customs Service of Russia

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**Exports of oil-and-fat products in 2015–2019, thousand tonnes**

<table>
<thead>
<tr>
<th>Year</th>
<th>bottled oil</th>
<th>Margarines and spreads</th>
<th>Mayonnaise and mayonnaise-based sauces</th>
</tr>
</thead>
<tbody>
<tr>
<td>'19</td>
<td>746</td>
<td>536</td>
<td>122</td>
</tr>
<tr>
<td>'18</td>
<td>645</td>
<td>475</td>
<td>91</td>
</tr>
<tr>
<td>'17</td>
<td>642</td>
<td>425</td>
<td>81</td>
</tr>
<tr>
<td>'16</td>
<td>580</td>
<td>376</td>
<td>90</td>
</tr>
<tr>
<td>'15</td>
<td>537</td>
<td>369</td>
<td>71</td>
</tr>
</tbody>
</table>

Source: Federal Customs Service of Russia, Eurasian Economic Community Customs Union, BusinessStat

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**Imports of oil-and-fat products in 2015–2019, thousand tonnes**

<table>
<thead>
<tr>
<th>Year</th>
<th>bottled oil</th>
<th>Mayonnaise and mayonnaise-based sauces</th>
<th>Margarines and spreads</th>
</tr>
</thead>
<tbody>
<tr>
<td>'19</td>
<td>34</td>
<td>22</td>
<td>7</td>
</tr>
<tr>
<td>'18</td>
<td>37</td>
<td>19</td>
<td>10</td>
</tr>
<tr>
<td>'17</td>
<td>33</td>
<td>18</td>
<td>11</td>
</tr>
<tr>
<td>'16</td>
<td>32</td>
<td>15</td>
<td>11</td>
</tr>
<tr>
<td>'15</td>
<td>31</td>
<td>15</td>
<td>11</td>
</tr>
</tbody>
</table>

Source: Federal Customs Service of Russia, Eurasian Economic Community Customs Union, BusinessStat
The major importers of Russian packaged and bottled oil-and-fat products are the CIS countries, such as Uzbekistan, Kazakhstan, Belarus, Kyrgyzstan, and Tajikistan. In 2019, these countries imported 60% of the total volume, or 451 thousand tonnes (+21% compared to 2018). For instance, Uzbekistan is the largest buyer of Russian bottled oil; in 2019, it imported 162 thousand tonnes (+45%) of this product from Russia. Meanwhile, Kazakhstan purchased the largest portion of Russian mayonnaise and mayonnaise-based sauces, as well as margarines and spreads – 28 thousand tonnes (+6%) and 24 thousand tonnes (+38%), respectively.

**Export destinations of bottled vegetable oil in 2019, thousand tonnes**

- **Uzbekistan**: 30 thousand tonnes (+7%)
- **Belarus**: 11 thousand tonnes (+9%)
- **Kazakhstan**: 8 thousand tonnes (+32%)
- **Afghanistan**: 8 thousand tonnes (+2%)
- **Georgia**: 7 thousand tonnes (+5%)
- **Others**: 35 thousand tonnes

**Export destinations of margarines and spreads in 2019, thousand tonnes**

- **Kazakhstan**: 20 thousand tonnes (+3%)
- **Uzbekistan**: 13 thousand tonnes (+18%)
- **Belarus**: 10 thousand tonnes (+14%)
- **Tajikistan**: 10 thousand tonnes (+16%)
- **Azerbaijan**: 7 thousand tonnes (+1%)
- **Georgia**: 8 thousand tonnes (+1%)
- **Others**: 37 thousand tonnes

**Export destinations of mayonnaise and mayonnaise-based sauces in 2019, thousand tonnes**

- **Kazakhstan**: 32 thousand tonnes (+11%)
- **Belarus**: 14 thousand tonnes (+19%)
- **Azerbaijan**: 11 thousand tonnes (+13%)
- **Georgia**: 8 thousand tonnes (+13%)
- **Moldavia**: 8 thousand tonnes (+13%)
- **Others**: 28 thousand tonnes

Source: Federal Customs Service of Russia, Eurasian Economic Community Customs Union, BusinessStat

**Exports of bottled oil from Russia in 2019**

- **536 thousand tonnes (+17%)**

**Exports of margarine and spread from Russia in 2019**

- **122 thousand tonnes (+12%)**

**Exports of mayonnaise and mayonnaise-based sauces from Russia in 2019**

- **89 thousand tonnes (+10%)**
Prices of sunflower seeds and crude sunflower oil in Russia in 2018-2019, thousand RUB/tonne, exclusive of VAT

CRUDE SUNFLOWER OIL PRICES

In 2019, the average annual price for crude sunflower oil in Russia stood at RUB39.6 thousand per tonne, excl. of VAT, which is 2% below the level of 2018. The decrease was due to lower global prices at the end of 2018 as a result of high global palm oil stocks.

The average cost of sunflower seeds in Russia in 2019 amounted to RUB 18.0 thousand/tonne, down 3% year-on-year. Seed prices changed following oil prices and in anticipation of gross yield. They ranged from RUB 15.8 thousand/tonne to RUB 18.9 thousand/tonne.

In April, prices continued their downward slide and reached RUB 38.2 thousand/tonne. Triggered by rising global prices for sunflower oil, prices began to go up in May and by the end of the second quarter they again returned to RUB 39.8 thousand/tonne.

Positive dynamics continued in July-August, but in September, after the start of harvesting of new year sunflower seeds, which were expected to be good, the prices began sliding down. In September, prices were RUB 40.6 thousand/tonne (-1% against the price in August).

In October and November, prices continued to fall. However, from the late November, global prices for palm oil started rising and as a result, the prices for sunflower oil in Russia went up to RUB 40.2 thousand/tonne by the end of the year (+8% to the price in November).

After the fall at the end of the previous year, prices rose to RUB39.7 thousand/tonne in January-February 2019. But as a result of high oil stocks at enterprises and a drawdown in global prices for soybean and palm oil, there was a reverse price adjustment to RUB 39.3 thousand/tonne in March.

Source: APK-Inform agribusiness consultant agency
OIL AND FATS PRICES

In 2019, the producers’ prices for main oil and fat categories other than spread experienced just a modest change. Resulting from the ban on using “vegetable butter” spread name, the average market prices for spread rose (+6%), while those for margarine, on the contrary, slightly slid down (-1%). The prices for mayonnaise and mayonnaise-based sauces achieved RUB 73/kg, exclusive of VAT (+1%), those for bottled oil dropped by 3 kopecks to RUB 52/kg, exclusive of VAT.

Average prices of consumer oil-and-fat products in Russia in 2015-2019, thousand RUB/tonne, exclusive of VAT

<table>
<thead>
<tr>
<th>Year</th>
<th>Spreads</th>
<th>Bottled oil</th>
<th>Margarine</th>
<th>Mayonnaise and mayonnaise-based sauces</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>103</td>
<td>48</td>
<td>52</td>
<td>51</td>
</tr>
<tr>
<td>2016</td>
<td>106</td>
<td>55</td>
<td>52</td>
<td>51</td>
</tr>
<tr>
<td>2017</td>
<td>110</td>
<td>50</td>
<td>52</td>
<td>51</td>
</tr>
<tr>
<td>2018</td>
<td>115</td>
<td>53</td>
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<td>51</td>
</tr>
<tr>
<td>2019</td>
<td>122</td>
<td>51</td>
<td>51</td>
<td>51</td>
</tr>
</tbody>
</table>

OUTLOOK FOR 2020

In 2019, the gross oilseed yield increased by 14% year-on-year and reached 22.7 million tonnes, including 15.1 million tonnes of sunflower seeds (+18%). Taking into account good crops, APK-Inform agribusiness consultant agency expects 9% season-on-season growth of oil production up to 6.8 million tonnes in 2019/2020 season, including 5.6 million tonnes of sunflower oil (+13%).

To sell the vegetable oil produced, Russia will have to increase export sales. The exports of all types of crude vegetable oil can amount to 3.5 million tonnes (+6% season-on-season). Due to higher demand for sunflower oil from India as a result of high palm oil prices, the exports of crude sunflower oil can increase by 7% to 2.2 million tonnes. Thus, the exports can reach 4.0 million tonnes, including bottled oil.

BusinesStat estimates that in 2020-2023 the average rise in the bottled oil production can be 3% per year and that in mayonnaise and mayonnaise-based sauces - 0.3%, while the margarine production will on a declining trend. Contraction of the retail demand for oils and fats is expected in the domestic market due to the growing popularity of a healthy lifestyle. Thereat, the HoReCa channel will be expanding since there is a strong tendency in Russia for eating outside with the growth of fast food chains.

The surplus in vegetable oil production over domestic consumption and higher consumption in the exporting economies will result in further growth of the exports share, whose natural volume can grow by 4–9% per year in the following three years. The briskest growth will be observed in the Middle Eastern countries and China. The exports of Russian mayonnaise and margarine will rise as well, as they are still popular in the CIS countries irrespective to the limited domestic demand. BusinesStat estimates that in 2020-2023 Russia’s exports of margarine and spread will continue to grow.
BUSINESS OVERVIEW

Rusagro Oil and Fats Business is represented by three oil and fats enterprises – Bezenchuk oil extraction plant, Yekaterinburgsky oil and fats plant, and Ussuriysky oil and fats plant - and six elevators. Since Q3 2019, Rusagro has been renting Atkarskiy and Balakovskiy crushing plants and three oil and fat plants - Moscovskiy, Saratovskiy and Novosibirskiy.

Oil extraction and by-production

In 2019, Rusagro’s total capacity of sunflower seeds processing (including the rented facilities) was 4.6 thousand tonnes of seeds/day, or about 1.6 million tonnes/year (+276% year-on-year, excluding capacities of Solnechnye Produkty assets), enabling the production of about 620 thousand tonnes of crude oil and 630 thousand tonnes of meal. The Company’s own enterprise – Bezenchuk oil extraction plant – can process 1.2 thousand tonnes of seeds/day, or about 420 thousand tonnes/year, and produce about 180 thousand tonnes of oil. Besides, Rusagro owns a soybean processing plant in the Far East with a capacity of 180 thousand tonnes of soybeans that provides about 30 thousand tonnes of oil and 140 thousand tonnes of soybean meal per year.

Oil-and-fat production

Rusagro’s Oil and Fats Business owns five elevators with a storage capacity of 155 thousand tonnes of sunflower seeds. In 2019, the Company sold Kolyshleiskiy Elevator with 35 thousand tonnes capacity. It also uses services of eight elevators of Solnechnye Produkty Holding with a capacity of 260 thousand tonnes of sunflower seeds.

Sales

In 2019, Rusagro’s total capacity (including SolPro capacities since 2H 2019) of industrial fats was about 180 thousand tonnes/year (+491% year-on-year), that of consumer products – 590 thousand tonnes/year (+67%). The Company’s own enterprise – Yekaterinburgsky oil and fats plant – can produce 30 thousand tonnes of industrial fats per year and about 300 thousand tonnes of consumer products per year.

In 2018, Rusagro launched own oil refining, deodorisation and bottling line with a capacity of 100 thousand tonnes of products/year on Bezenchuk oil extraction plant.

8 brands

Oil and fats plants

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Oil and fats plants

5 crushing plants

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8 brands
**Capacity of Rusagro’s sunflower seeds extraction in 2015-2019, tonnes/day**

- 2015: 1,216
- 2016: 1,229
- 2017: 1,244
- 2018: 1,225
- 2019: 4,610

*+276%*

**INVESTMENTS**

In 2019, Rusagro invested RUB 0.5 billion in development and support of the Oil and Fats Business, with a year-on-year decrease of 55%. The reduction in investments is related to the completion of the investment project for the bottled oil shop construction. Half of the funds (53%) was invested to maintain existing facilities.

**Investments in 2015-2019, RUB billion**

- 2015: 0.6
- 2016: 1.0
- 2017: 1.6
- 2018: 1.2
- 2019: 0.5

*–55%*

**Deal with Solnechnye Produkty**

In October 2018, ROS AGRO PLC acquired a right to purchase the majority interest of Quartlink Holding Limited Company that owned Solnechnye Produkty Holding. In November, Rusagro Group of Companies acquired rights on claims of Solnechnye Produkty related to credits in the Russian Agricultural Bank amounting to RUB 34.7 billion. In 2019-2020, Rusagro plans to acquire some of the assets.

1. including capacities of the rented Solnechnye Produkty plants only from the second half of 2019.
AUTOMATION AND INNOVATION

The key objective of the Oil and Fats Business in 2019 was the integration and unification of different-type IT-systems within the Oil and Fats Business historical contour with Solnechnye Produkty IT-systems, as well as the transition to common IT-policies and standards of Rusagro.

To complete the assigned tasks, the Transition Period Plan and IT-Systems Integration Plan were developed for the unification of the following business processes:

- Raw materials and supplies procurements
- Production process accounting
- Own transport management
- Regulatory and tax accounting
- Reference data management
- IFRS reporting
- Warehouse logistics
- Finished products logistics
- Sales systems, including an integrated electronic data interchange (EDI) to work with the federal chains
- Electronic sales to distributors via a single portal (IDMS)

The following system classes were unified

1. Production process planning and accounting systems. The transition from four systems to a single unified system made it possible to radically simplify accounting, enhance transparency and reliability of reports.

2. Electronic document management systems (EDMS). A project for integration of two EDMS systems on one platform was implemented that allowed the creation of shared information space for coordination of any-level documents.

3. Infrastructure services. A project was implemented for the transition to common mail service, corporate communication systems, single directory service and corporate portal.

4. Information security. Solnechnye Produkty IT-infrastructure was taken under protection by Rusagro’s information security systems.
OPERATIONAL RESULTS

Production

Due to the rent of the plants owned by Solnechnye Produkty, Rusagro Oil and Fats Business managed to increase the production of all main product categories in 2019.

For instance, in 2019 the Company ramped up the sunflower seeds processing by 254% to 1.4 million tonnes. As a result, 624 thousand tonnes of crude vegetable oil were produced, which was up 132%, or 355 thousand tonnes, year-on-year. In particular, 609 thousand tonnes of crude sunflower oil (+126%, or 340 thousand tonnes) and 15 thousand tonnes of soybean oil (-16%, or 3 thousand tonnes) were produced. The meal production grew by 100% (+318 thousand tonnes) and amounted to 636 thousand tonnes, including 553 thousand tonnes of sunflower meal and 81 thousand tonnes of soybean meal.

In 2019, the production of industrial fats increased from 12 to 285 thousand tonnes. The rent of Solnechnye Produkty plants made Rusagro the largest industrial fats producer in Russia. The Company produces all main types of this product category, except for cocoa butter equivalents. Bulk of the products mix is represented by universal margarines and fats that are of the highest demand at the domestic market.

Rusagro doubled the production of oil-and-fat consumer products to 331 thousand tonnes (+169 thousand tonnes). The most significant increase was shown by such product types as mayonnaise and mayonnaise-based sauces. This product category tripled: from 48 to 146 thousand tonnes. Bottled oil went up by 62% (+55 thousand tonnes) and reached 143 thousand tonnes, consumer margarines and spreads – 42 thousand tonnes, up 60% (+16 thousand tonnes).

<table>
<thead>
<tr>
<th>Production of vegetable oil in 2019</th>
<th>Production of industrial fats in 2019</th>
<th>Production of consumer oil-and-fat products in 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>624 thousand tonnes +132%</td>
<td>285 thousand tonnes +2,283%</td>
<td>331 thousand tonnes +104%</td>
</tr>
</tbody>
</table>

Rusagro’s production of vegetable oil in 2019

Rusagro’s production of industrial fats in 2019

Rusagro’s production of consumer oil-and-fat products in 2019

<table>
<thead>
<tr>
<th>Year</th>
<th>Mayonnaise and mayonnaise-based sauces</th>
<th>Bottled oil</th>
<th>Consumer margarine</th>
</tr>
</thead>
<tbody>
<tr>
<td>'15</td>
<td>65 3 43</td>
<td></td>
<td></td>
</tr>
<tr>
<td>'16</td>
<td>126</td>
<td>78 12 37</td>
<td></td>
</tr>
<tr>
<td>'17</td>
<td>112</td>
<td>56 20 36</td>
<td></td>
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<tr>
<td>'18</td>
<td>163</td>
<td>48 101 29</td>
<td></td>
</tr>
<tr>
<td>'19</td>
<td>331</td>
<td>146 143 42</td>
<td>+104%</td>
</tr>
</tbody>
</table>

*NOTE: All data are rounded to the nearest thousand.*
Sales

As a result of production growth in 2019, Rusagro increased its sales volumes of oil-and-fat products from 655 to 1,623 thousand tonnes (+148%), among which crude oil and meal accounted for 66%, consumer oil-and-fat products – for 19%, and industrial fats – for 15%. Sales of all product categories posted a good growth.

The Company doubled sales of crude vegetable oil to third parties (to 406 thousand tonnes) and doubled sales of meal (to 647 thousand tonnes). About half of oil volume (56%) and meal volume (46%) was exported.

<table>
<thead>
<tr>
<th>Rusagro's sales of oil-and-fat products in 2015-2019, thousand tonnes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Year</strong></td>
</tr>
<tr>
<td><code>19</code></td>
</tr>
<tr>
<td><code>18</code></td>
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<tr>
<td><code>17</code></td>
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<tr>
<td><code>16</code></td>
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<tr>
<td><code>15</code></td>
</tr>
</tbody>
</table>

Sales of industrial fats went up sizeably. Rusagro started production of this product category in 2017. In 2018, the Company achieved the targets of 10 thousand tonnes and in 2019 it marketed already 243 thousand tonnes through the lease of Solnechnye Produkty’s production capacities.

243 thousand tonnes +2,329%

Rusagro’s sales of industrial fats in 2019

In 2019, the Company initiated sales of products under Solnechnye Produkty holding brands, which encouraged the goal to penetrate the mayonnaise market in the Central Russia. Moskovsky Provansal mayonnaise is number one mayonnaise in this region with a share of 26%. According to national data, it ranked fifth, covering 10% of the domestic market. As can be seen from the results of the first six months of 2019, awareness of the brand is equal to 44%. Saratovsky margarine ranked second on the domestic market with a share of 13%.

Consumer products

Rusagro’s oil-and-fat products traditionally occupy leading positions in the domestic region. According to AC Nielsen data, mayonnaise under Provansal EZhK brand ranked first in 2019, covering 42% of the Ural market, and consumer margarine under Schedroye Leto brand also ranked first with a 64% share of the Ural market. In Russia, they took sixth with a share of 5% and third with a share of 12%, respectively. Based on the results of the first six months of 2019, awareness of these two brands at the national level was equal to 26 and 16%, respectively.

In 2019, sales volumes of consumer oil-and-fat products increased by 88% to 328 thousand tonnes due to the growth of all products categories. Sales of mayonnaise and mayonnaise-based sauces showed the most significant increase: the sales volume accounted for 136 thousand tonnes, a year-on-year threefold increase. Sales of the bottled oil went up by 52% (+50 thousand tonnes) to 147 thousand tonnes, sales of the consumer margarine and spreads – by 52% (+15 thousand tonnes) to 45 thousand tonnes. Thirty-six percent of sales volumes were directed towards exports.

328 thousand tonnes +88%

Rusagro’s sales of consumer oil-and-fat products in 2019
Exports
Exports of Rusagro’s oil-and-fat products tripled and reached 672 thousand tonnes, including 296 thousand tonnes of crude vegetable oil (a year-on-year threefold increase), 227 thousand tonnes of meal (fourfold increase), 28 thousand tonnes of industrial fats and 122 thousand tonnes of consumer products (+77%). Exports of the bottled oil doubled and amounted to 72 thousand tonnes.

Nearly all of the total oil volume was sold in Western Asian countries, which includes 56 thousand tonnes (four times more than in 2018) sold in Turkey, the meal was mainly sold in Europe, in particular 106 thousand tonnes – in Denmark, 50 thousand tonnes – in Germany. Key areas of consumer oil-and-fat products sales are represented by CIS countries, such as Uzbekistan, Kazakhstan, Azerbaijan, and Tajikistan.

Prices
In 2019, sales prices of all oil-and-fat products of Rusagro came down. Sales prices of industrial fats dropped by 9% to RUB38/kg, excl. of VAT, as well as those of margarine – by 3% due to lower prices for palm oil (down 10% year-on-year). Lowering of prices for bottled oil by 3% was spurred by a decline in prices for sunflower oil (–3%) and the fluctuation of the United States dollar. The price for mayonnaise fell by 2% as a result of growing HoReCa sales as compared to retail sales.
In 2019, sales of Rusagro’s Oil and Fats Business rose by 137% (+ RUB36.1 billion) to RUB62.4 billion. Sales growth was encouraged by the increase in sales volume by 169% through the use of tolling scheme to operate Solnechnye Produkty assets during the first six months of 2019 and to their rent in the second half of the year. However, the adjusted earnings before interest, taxes, depreciation and amortisation (EBITDA) went up only by 27% (+ RUB0.8 billion) to RUB3.7 billion.

Adjusted EBITDA growth in the Oil and Fats Business was limited because EBITDA related to products produced by SolPro assets remained on SolPro entities due to the tolling scheme used during the first half of 2019. Starting from July 2019 SolPro plants were rented by Rusagro and margin was reflected in Rusagro EBITDA. Also, the Business increased sales and administrative expenses to promote the sales of additional production volumes already in the first quarter of 2019. In addition, sales of industrial fats increased dramatically while having low profit margin. As a result of the above, adjusted EBITDA margin decreased from 11 to 6% (-5 p.p.).

In 2020, the Oil and Fats Business may again enjoy higher operating and financial performance figures. The production of crude oil in 2019/2020 season will be growing under the influence of high gross yields of sunflower seed in 2019, the production of oil-and-fat products may be boosted through the lease of Solnechnye Produkty oil-and-fat plants over the full year. In the course of the year, Rusagro will continue to participate in Solnechnye Produkty bankruptcy procedure in order to acquire part of its producing assets. The Company is committed to pursue the efforts on developing sales potential and on reinforcing its position at the key products markets. To increase the profitability of the product mix, which in the reporting period was negatively affected by industrial fats, the Company plans to promote more profitable categories, such as deep-frying mixes, margarines for puff pastry, and special margarines. Also there are plans to develop and commercialise new products, for example, product line of palm oil-free fats, and to expand the geography footprint.
In an effort to increase crop areas, Rusagro over the past five years has expanded arable land by 37% to 562 thousand ha. In 2019, Rusagro additionally cultivated 46 thousand ha rented in the Saratov Region for one season.
MARKET OVERVIEW

DOMESTIC PRODUCTION

As estimated by the Russian Ministry of Agriculture, agricultural yield in 2019 increased by 13% up to 182 million tonnes, including 179 million tonnes of key crops (wheat, barley, maize, sunflowers seeds, soybean, and sugar beet). Expanded crop-growing areas and an increase in crop yields resulted in higher output of all main crops. The production of grains and pulses showed a significant rise – by 8.5 million tonnes (+8%) and amounted to 109 million tonnes. The output of oil crops increased to 19 million tonnes (plus 2.9 million tonnes (+18%) year-on-year). Sugar beet production reached a record high level: 51 million tonnes, with a year-on-year increase of 21% (+8.7 million tonnes).

As a result of favourable warm weather in 2019, yield per hectare of all main crops cultivated in Russia also increased. For instance, grain yield went up by 5% year-on-year and amounted to 2.8 tonnes/ha. The growth was primarily attributable to maize and barley, whereas the wheat yield experienced a slight decline (~0.4%). Oil crops yield (sunflowers seeds and soybeans) rose to 1.7 tonnes/ha (+12%). Sugar beet broke a new record with a yield of 46.5 tonnes/ha (+22%).

52.3 million hectares

22%
sugar beet yield per hectare growth in Russia in 2019

Source: The Russian Ministry of Agriculture
DOMESTIC PRODUCTION FIGURES BROKEN DOWN INTO MAIN CROP

Gross yield of grain crops in Russia in 2015–2019, million tonnes

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheat</td>
<td>13</td>
<td>18</td>
<td>21</td>
<td>17</td>
<td>14</td>
</tr>
<tr>
<td>Barley</td>
<td>62</td>
<td>18</td>
<td>73</td>
<td>86</td>
<td>72</td>
</tr>
<tr>
<td>Maize</td>
<td>11</td>
<td>17</td>
<td>11</td>
<td>17</td>
<td>14</td>
</tr>
</tbody>
</table>

Source: The Russian Ministry of Agriculture

Gross yield of oil crops in Russia in 2015–2019, million tonnes

<table>
<thead>
<tr>
<th></th>
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<th>2016</th>
<th>2017</th>
<th>2018</th>
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<tbody>
<tr>
<td>Sunflower seeds</td>
<td>3</td>
<td>9</td>
<td>11</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Soybeans</td>
<td>3</td>
<td>9</td>
<td>11</td>
<td>4</td>
<td>4</td>
</tr>
</tbody>
</table>

Source: The Russian Ministry of Agriculture

Output of sugar beet in 2015–2019

<table>
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</thead>
<tbody>
<tr>
<td>Gross yield, million tonnes</td>
<td>38.2</td>
<td>46.4</td>
<td>40.2</td>
<td>38.1</td>
<td>46.5</td>
</tr>
<tr>
<td>Yield, tonnes/ha</td>
<td>1.02</td>
<td>1.11</td>
<td>1.20</td>
<td>1.13</td>
<td>1.15</td>
</tr>
<tr>
<td>Area under crop, million hectares</td>
<td>2.1</td>
<td>7.0</td>
<td>2.2</td>
<td>7.6</td>
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Source: The Russian Ministry of Agriculture

Area under grain crops in Russia in 2015–2019, million hectares

<table>
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<tbody>
<tr>
<td>Wheat</td>
<td>2.8</td>
<td>2.9</td>
<td>3.0</td>
<td>2.5</td>
<td>2.6</td>
</tr>
<tr>
<td>Barley</td>
<td>8.9</td>
<td>8.3</td>
<td>8.0</td>
<td>8.3</td>
<td>8.8</td>
</tr>
<tr>
<td>Maize</td>
<td>26.8</td>
<td>27.7</td>
<td>27.9</td>
<td>27.3</td>
<td>28.1</td>
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Source: The Russian Ministry of Agriculture

Area under oil crops in Russia in 2015–2019, million hectares

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<td>7.6</td>
<td>2.6</td>
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Source: The Russian Ministry of Agriculture

Yield of grain crops in Russia in 2015–2019, tonnes/ha

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<td>2.6</td>
<td>2.6</td>
<td>2.4</td>
<td>2.4</td>
</tr>
<tr>
<td>Barley</td>
<td>4.8</td>
<td>5.3</td>
<td>4.0</td>
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<td>1.6</td>
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<td>1.4</td>
<td>1.2</td>
<td>1.6</td>
<td>1.8</td>
</tr>
</tbody>
</table>

Source: The Russian Ministry of Agriculture

Source: The Russian Ministry of Agriculture
EXPORTS AND IMPORTS

In 2019, exports of crops suffered a year-on-year decrease of 8% (-3.7 million tonnes) and totalled 42.2 million tonnes. Against the background of rising exports of sunflower seeds (from 0.1 to 0.7 million tonnes), outflows of soybean and grain crops declined by 24% and 9%, or 0.2 and 4.2 million tonnes, respectively. Wheat exports dropped by 3.6 million tonnes (−10%) to 33.1 million tonnes and maize exports – by 15% (−0.6 million tonnes). The main reason behind such reduction of grain exports is their low competitiveness amid increased competition from Ukraine and European Union countries.

On the back of gross yield growth, imports of agricultural products in Russia showed a year-on-year reduction by 28% (−0.9 million tonnes) and reached 2.2 million tonnes. As the bulk of imports (88%) went for soybeans, the decrease in their imports by 29% (−0.8 million tonnes) to 2.0 million tonnes resulted in a decline of the total volume. This trend was driven by an excess of soybeans in Central Russia resulting from the bumper harvest. In 2019, the list of importing countries did not change dramatically, since Latin America countries continue to hold firm positions here by offering competitive price and stable quality of soybeans. Brazil imported 0.9 million tonnes (−24%), Paraguay – 0.8 million tonnes (−15%).
In 2019, the average annual market prices for grain crops in Russia went up by 7%, whereas those for oil crops went down by 17%, on a year-on-year basis. Prices for wheat experienced the sharpest increase and came up to 10.8 thousand RUB/tonne (+10%). The prices at the domestic market were supported through the growing demand for cereal grain and animal feeding grain, particularly due to the increased meat production, and through moderate growth of wheat supply (+3%). Prices for barley showed a just slight rise (+1%). Maize prices grew by 9% due to higher output of maize processed into to alcohol, starch, and malt. As a result of high yield, the prices for sunflower seeds and soybeans fell by 13 and 22% to RUB 22.3 thousand and RUB 17.3 thousand per tonne, respectively.

In 2019, the global market reported the following price movements for main crops on an year-on-year basis: prices went down for barley (−18% – down to 11.8 thousand RUB/tonne) and soybeans (−6% – down to 21.4 thousand RUB/tonne) and went up for maize (+8% – up to 9.8 thousand RUB/tonne), wheat (+3% – up to 11.7 thousand RUB/tonne), and sunflower seeds (+0.4% – to 22.8 thousand RUB/tonne). High grain supply and low development of exports had a negative impact on prices, particularly affecting barley. As for soybeans, 2019 was spent in waiting for the settlement of the conflict between the United State and China that exerted constant pressure on prices. Prices for sunflower seeds by the end of the year were driven up by prices for vegetable oils, especially palm oil.

---

**Prices for agricultural crops in Russia in 2015–2019, thousand RUB/tonne, excl. of VAT**

<table>
<thead>
<tr>
<th>Grain</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheat</td>
<td>8.9</td>
<td>9.9</td>
<td>9.7</td>
<td>9.3</td>
<td>9.8</td>
</tr>
<tr>
<td>Barley</td>
<td>8.5</td>
<td>8.7</td>
<td>7.2</td>
<td>9.3</td>
<td>9.9</td>
</tr>
<tr>
<td>Maize</td>
<td>10.1</td>
<td>10.0</td>
<td>9.8</td>
<td>9.7</td>
<td>9.8</td>
</tr>
</tbody>
</table>

Source: APK-Inform agribusiness consultant agency

**Prices for oil crops in Russia in 2015–2019, million tonnes**

<table>
<thead>
<tr>
<th>Soybeans</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>26.2</td>
<td>23.5</td>
<td>23.3</td>
<td>23.4</td>
<td>25.7</td>
<td>22.3</td>
</tr>
<tr>
<td>Sunflower</td>
<td>9.2</td>
<td>9.5</td>
<td>7.7</td>
<td>9.6</td>
<td>10.2</td>
</tr>
</tbody>
</table>

Source: APK-Inform agribusiness consultant agency

---

**Global prices for agricultural crops in 2015–2019, thousand RUB/tonne, excl. of VAT**

<table>
<thead>
<tr>
<th>Grain</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grains</td>
<td>23.1</td>
<td>25.6</td>
<td>21.4</td>
<td>22.7</td>
<td>22.1</td>
</tr>
<tr>
<td>Oil crops</td>
<td>10.9</td>
<td>12.0</td>
<td>9.0</td>
<td>11.3</td>
<td>10.8</td>
</tr>
</tbody>
</table>

Source: APK-Inform agribusiness consultant agency
KEY PLAYERS

According to BEFL accounting and consulting company, 5.4 million hectares of agricultural lands were controlled by ten largest farmland owners as of May 2019. With its land bank expanded by 324 thousand hectares (+48%) to 1,000 thousand hectares, Miratorg is at the top of the rating. Promidex, a previous year leader, increased its land area by 75 thousand hectares (+9%) and moved down to rank second. Rusagro again ranked third with a land bank of 650 thousand hectares. With a view of the land optimisation, the Company reduced the total area by 25 thousand hectares, including the shrinkage of non-cropland by 38 thousand hectares and the expansion of land under crops by 15 thousand hectares.

The largest farmland owners in Russia as of May 2019, thousand hectares

<table>
<thead>
<tr>
<th>Company</th>
<th>Land Area (thousand hectares)</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Miratorg</td>
<td>1,000</td>
<td>+324</td>
</tr>
<tr>
<td>Promidex</td>
<td>865</td>
<td>+75</td>
</tr>
<tr>
<td>Rusagro</td>
<td>650</td>
<td>-25</td>
</tr>
<tr>
<td>Agrocomplex</td>
<td>649</td>
<td>+5</td>
</tr>
<tr>
<td>EkoNiva-APK</td>
<td>504</td>
<td>+170</td>
</tr>
<tr>
<td>Volgo-Don Agroinvest</td>
<td>452</td>
<td>0</td>
</tr>
<tr>
<td>Avangard Agro</td>
<td>450</td>
<td>+50</td>
</tr>
<tr>
<td>BIO-TON</td>
<td>403</td>
<td>+53</td>
</tr>
<tr>
<td>Steppe</td>
<td>401</td>
<td>+21</td>
</tr>
<tr>
<td>Vasilina</td>
<td>380</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: BEFL

OUTLOOK FOR 2020

The climatic situation in Russia is continued to be assessed as favourable for further development of domestic crop production. Global warming, which has already led to a decrease in the number of low-temperature winters and a longer growing season, allows for a gradual increase in the crop areas. Record-high yields of certain crops undermine the prices and make agricultural enterprises and farmers re-consider the crop rotation pattern in favour of higher margin crops.

In 2020, the Russian Ministry of Agriculture projects an increase in production through a few percent expansion of the areas under crops and high crop yields. The gross yield of grain is expected to reach 125 million tonnes (+3% against 2019), whereas wheat yield is expected to increase by 8% to reach 80 million tonnes. Maize yield can also grow: the crop area can reach 2.7 million hectares (+2%) in 2020. The Russian Ministry of Agriculture expects that soybeans sowing may go up by 3%, while that of sunflower seeds may go down as a result of the shrinkage in planted area to 8.1 million hectares (~6%). Due to record low prices for sugar beet, the areas under sugar beet will be cut down. Forecasted drop varies from 6% to 15% and can be updated against the results of the planting season.

According to the forecast of the Analysis Center of the Russian Ministry of Agriculture, in the first half of 2020 we can expect an enhancing growth of grain exports, compared to the same period in 2019. This trend is associated with the expectations that major competitor nations at global grain market will not be able to fully satisfy demand, while current exports in Russia are, on the contrary, below potential. In 2020, domestic prices for grain will depend on possibilities to export Russian grain and crop yields in other countries of the world.
### OUTCOMES OF 2019

#### BUSINESS OVERVIEW

As at the end of 2019, the land area managed by Rusagro decreased by 2% compared to 2018 – up to 641 thousand ha. In addition, from February to November 2019 the Company rented 50 thousand ha of land, including 46 thousand of arable land, in the Saratov Region. Most of the arable land of the Company (79%) is located in the Central Black Earth Region of Russia. The Company owns 54% of the land bank (+3 p.p.).

As at the end of 2019, Rusagro’s land bank dropped by 2% and arable land area - by 3% due to the termination of lease contracts for ineffective land, the abandonment of grazing land, the sale of low-productive land to third parties, and the adjustment of field boundaries after inventory. However, in 2019 the Company cultivated 5% of land more due to the rent of 46 thousand ha of arable land in the Saratov Region from February to November.

**Rusagro’s land bank area in 2015–2019, thousand hectares**

<table>
<thead>
<tr>
<th>Year</th>
<th>Arable land</th>
<th>Other lands</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>504</td>
<td>94</td>
<td>598</td>
</tr>
<tr>
<td>2016</td>
<td>665</td>
<td>114</td>
<td>779</td>
</tr>
<tr>
<td>2017</td>
<td>675</td>
<td>108</td>
<td>783</td>
</tr>
<tr>
<td>2018</td>
<td>652</td>
<td>70</td>
<td>722</td>
</tr>
<tr>
<td>2019</td>
<td>641</td>
<td>78</td>
<td>719</td>
</tr>
</tbody>
</table>

**Structure of arable land by regions in 2019, %**

- **Belgorod Region**: 42%
- **Tambov Region**: 23%
- **Primorye Territory**: 14%
- **Saratov Region**: 8%
- **Orlov Region**: 7%
- **Kursk Region**: 4%
- **Voronezh Region**: 2%
- **Lipetsk Region**: 3%

The largest arable land holdings are situated in the Belgorod and Tambov Regions – 256 thousand hectares (~4%) and 140 thousand hectares (~9%), respectively. The Company’s Agriculture Business controlled 83 thousand hectares of arable land (+6%, or 4 thousand hectares) in the Primorye Territory. In 2019, the cultivated land structure also included land in the Saratov Region, which was leased from February till November of 2019.

In 2019, the aggregate storage capacity, including five grain storage grounds, totalled 845 thousand tonnes. The machinery fleet comprised 1.5 thousand self-propelled agricultural machines and 3.8 thousand items of pulled equipment.

In 2019, Rusagro sold all sugar beets to sugar plants of Rusagro’s Sugar Business. A part of grain crops (28%), such as wheat, barley, and maize, was sold to the Company’s Meat Business, and a part of oil crops (8%), such as soy and sunflower, went to the Oil and Fats Business.
INVESTMENTS

In 2019, Rusagro invested RUB 2.0 billion in development and support of the Agriculture Business, with a year-on-year increase of 3%. The bulk of funds (63%) was allocated for business development. Thus, the Company invested RUB 1 billion to expand owned land share and to acquire the necessary facilities, equipment and materials for new lands.

To maintain the existing capacities, the Company spent 37% of investments, a year-on-year decrease of 9%. The major part of business maintenance costs is used to update machinery and equipment. In 2019, the Company re-assessed the technical condition of existing machinery fleet and proved the decreased needs for additional investments.

2.0 RUB billion  
investments in the Agriculture Business in 2019

54%  
share of agricultural land owned by Rusagro in 2019

Rusagro’s investments in Agriculture Business in 2015-2019, RUB billion

Structure of arable land by regions in 2019, %

<table>
<thead>
<tr>
<th>Year</th>
<th>Owned</th>
<th>Long-term lease</th>
<th>Short-term lease</th>
</tr>
</thead>
<tbody>
<tr>
<td>'19</td>
<td>54</td>
<td>40</td>
<td>6</td>
</tr>
<tr>
<td>'18</td>
<td>51</td>
<td>42</td>
<td>7</td>
</tr>
<tr>
<td>'17</td>
<td>49</td>
<td>44</td>
<td>7</td>
</tr>
<tr>
<td>'16</td>
<td>48</td>
<td>43</td>
<td>9</td>
</tr>
<tr>
<td>'15</td>
<td>43</td>
<td>45</td>
<td>12</td>
</tr>
</tbody>
</table>

In accordance with the accepted strategy on establishing control over arable land and reducing lease costs, Rusagro continues to increase the areas owned. So, at the end of 2019, 54% of the whole land bank was already in ownership of the Company, with a year-on-year uptick of 3 p.p.

Another 40% (~2 p.p.) of all areas are under long-term lease and 6% (~1 p.p.) - under short-term lease.

PROJECT

“CONSTRUCTION OF AN ELEVATOR”

Status:
PRE-PROJECT ACTIVITIES ARE IN PROGRESS

Storage capacity:
340 thousand tonnes

Project cost:
RUB 1.6 billion, excl. of VAT

Timeline:
2019-2021

Launching:
2022

PROJECT

“DIGITAL TRANSFORMATION”

Status:
UNDERWAY

Goals:
digitalisation of production control and planning processes.

Project cost:
RUB 1.9 billion, excl. of VAT (capital investments and maintenance)

Timeline:
2017-2025

Launching:
phased
INFORMATION TECHNOLOGIES AND INNOVATIONS


Key goals of building the digital management system by the end of 2020:

1. IoT (Internet of things) is a technological concept meaning that any things can be connected to the Internet for their remote control via a software and for on-line data exchange via a server or directly.

2. As part of the digitalisation programme, the Agriculture Business initiated the following projects that are currently underway:

   1. In order to digitalise the strategic planning process, a strategic algorithm for integrated business planning and simulation is being under development to determine the optimal crop rotation based on the individual characteristics of fields and crops.

   2. As part of the digitalisation of the main operational processes, the Company implements the following projects:

      • Automated recording of the fact of harvesting jobs with wireless identification of vehicles in order to prevent the shipment of finished products to third-party vehicles. The project involves industrial Internet of things (IoT) technologies and near field radio methods. Such a control system will improve the safety of finished products at all stages of harvesting and transportation.

      • Generating an optimal schedule of digging, piling, and delivery of sugar beet. The algorithm determines an optimal sequence of sugar beet digging, taking into account the field readiness and logistics. A system was created to control the quality of technological operations performed.

      • Differential application of crop-protecting agents and fertilisers.

      • Planning of sales and placement of finished products in in-house and third-party elevators during the harvesting campaign.

3. Since 2017, Rusagro has been involved, together with Schelkovo Agrochem, in the development of sugar beet hybrids with improve yields.

   In 2019, the SoyuzSemSvekla Genetic Selection Centre was officially opened in the Voronezh Region. The Centre aims towards creating new highly productive, disease-resistant sugar beet hybrids even in the main biological and morphological characteristics.

   In 2019, the project was selected by the commission of the Ministry of Agriculture to grant governmental support. The first hybrids were registered in 2019, and their sales are scheduled for 2020.
OPERATIONAL HIGHLIGHTS

Production

In 2019, Rusagro harvested 5.4 million tonnes, including 3.9 million tonnes of sugar beet (+13%, or 0.4 million tonnes), 1.0 million tonnes of grains (−6%, or 59 thousand tonnes) and 0.4 million tonnes of oil crops (+15%, or 51 thousand tonnes). Due to the increase in areas under oil crops and wheat and higher output of sugar beet, the amount of harvested products rose by 8% (+0.4 million tonnes) year-on-year.

In 2019, most of Rusagro’s crops areas were occupied by grain crops, amounting to 252 thousand hectares, among them 176 thousand hectares of winter and spring wheat (+5%, or 9 thousand hectares), 56 thousand hectares – barley (−1%, or 1 thousand hectares), and 20 thousand hectares – maize (−28%, or 8 thousand hectares). At the same time, the areas under oil crops went up by 26% (43 thousand hectares). The areas under sunflower seeds increased by 62% (+14 thousand hectares) driven by the operations in the Saratov Region, and the areas under soybeans increased by 20% (+29 thousand hectares) as a result of the abandonment of less profitable pea. The Company grew sugar beet at the area of 87 thousand hectares (−2%, or down 2 thousand hectares year-on-year).

In 2019, the average yields per hectare reduced across all crops, except for sugar beet and wheat. So, the average yield of grain crops dropped by 6% to 4.0 tonnes/ha. Low yield of wheat and barley is attributable to adverse weather conditions during the harvesting season, that of maize – to a decision not to sow in the Central Russia and unfavourable weather in the Primorye Territory. Oil crops figures fell by 8% to 1.8 tonnes/ha. The lower yield of sunflower seeds is associated with the low potential capacities of lands in the Saratov Region: the gained yield of 1.7 tonnes/ha vs 2.9 tonnes/ha from the areas of a standard perimeter.

5,350 thousand tonnes +8%
Rusagro’s gross yield in 2019

42%
share of grains in the structure of Rusagro’s cultivated area in 2019

45.1 tonnes/ha +15%
Rusagro’s sugar beet yield in 2019

structure of Rusagro’s cultivated area in 2015–2019, thousand hectares

1. Calculated as an average weighted by the area under each crop.
PRODUCTION FACTORS BROKEN DOWN INTO MAIN CROPS

Rusagro’s gross yield of grain crops in 2015–2019, thousand tonnes

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheat</td>
<td>109</td>
<td>140</td>
<td>122</td>
<td>186</td>
<td>104</td>
</tr>
<tr>
<td>Maize</td>
<td>275</td>
<td>466</td>
<td>731</td>
<td>675</td>
<td>712</td>
</tr>
</tbody>
</table>

Rusagro’s area under grain crops in 2015–2019, thousand hectares

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheat</td>
<td>693</td>
<td>930</td>
<td>1,150</td>
<td>1,062</td>
<td>1,003</td>
</tr>
<tr>
<td>Maize</td>
<td>200</td>
<td>227</td>
<td>245</td>
<td>252</td>
<td>252</td>
</tr>
</tbody>
</table>

Rusagro’s yield of grain crops in 2015–2019, tonnes/ha

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheat</td>
<td>5.6</td>
<td>6.0</td>
<td>5.1</td>
<td>6.7</td>
<td>5.2</td>
</tr>
<tr>
<td>Maize</td>
<td>3.6</td>
<td>4.2</td>
<td>5.0</td>
<td>4.0</td>
<td>4.1</td>
</tr>
</tbody>
</table>

Rusagro’s gross yield of oil crops in 2015–2019, thousand tonnes

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sunflower seeds</td>
<td>55</td>
<td>74</td>
<td>40</td>
<td>62</td>
<td>88</td>
</tr>
<tr>
<td>Soybeans</td>
<td>160</td>
<td>245</td>
<td>224</td>
<td>329</td>
<td>379</td>
</tr>
</tbody>
</table>

Rusagro’s area under oil crops in 2015–2019, thousand hectares

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sunflower seeds</td>
<td>23</td>
<td>31</td>
<td>21</td>
<td>23</td>
<td>38</td>
</tr>
<tr>
<td>Soybeans</td>
<td>95</td>
<td>123</td>
<td>151</td>
<td>169</td>
<td>212</td>
</tr>
</tbody>
</table>

Rusagro’s yield of oil crops in 2015–2019, tonnes/ha

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sunflower seeds</td>
<td>2.4</td>
<td>2.4</td>
<td>1.9</td>
<td>2.3</td>
<td>2.3</td>
</tr>
<tr>
<td>Soybeans</td>
<td>1.7</td>
<td>1.9</td>
<td>1.5</td>
<td>1.4</td>
<td>1.7</td>
</tr>
</tbody>
</table>
**Sales**

**Volumes**
In 2019, sales volume of Rusagro’s Agriculture Business rose by 24% to 5.4 million tonnes year-on-year. As a result of a bumper harvest and a high level of carry-over stocks (673 thousand tonnes at the end of 2018 vs 332 thousand tonnes at the end of 2017), sales of all crops boosted up. Thus, sales of grain crops grew by 64% (+0.5 million tonnes) to 1.3 million tonnes, those of oil crops – by 111% (+0.2 million tonnes) to 0.3 million tonnes, and those of sugar beet – by 11% (+0.4 million tonnes) to 3.9 million tonnes.

1.3 million tonnes

Rusagro’s sales of grains in 2019

**Exports**
Most of the grains and oilseeds (72% and 92%, respectively) were sold to companies outside Rusagro’s. In 2019, the Company’s agricultural exports rose by 42% (+85 thousand tonnes) and reached 288 thousand tonnes. Thus, grains exports increased by 28% (+57 thousand tonnes) and amounted to 259 thousand tonnes due to an increase in the consumption of grain in China and the Republic of Korea from zero to 36 thousand tonnes. Meanwhile, trade war between China and the USA resulted in a growing demand from Chinese buyers for Russian soybeans, as a result, Rusagro delivered 17 thousand tonnes of soybeans to China. In total, 49% of exported oilseeds and grain crops were sold in Japan, China, and the Republic of Korea.

288 thousand tonnes

Exports of Rusagro’s crops in 2019

1. Calculated as a simple mean weighted for sales volume of each crop.
In 2019, the sales prices for grain crops increased by 16% to 10.6 thousand RUB/tonne, exclusive of VAT. The prices for maize and wheat experienced the most significant rise: by 25% (+2.5 thousand RUB/tonne) and 18% (+1.6 thousand RUB/tonnes), reaching 10.4 and 10.2 thousand RUB/tonne, respectively. Such increase was driven by the limited supply of grains against the high demand for the same at the end of 2018, sending the prices higher in the first half of 2019. Meanwhile, sales prices of oil crops and sugar beet dropped on the back of the domestic yield growth. The prices for soybeans reduced by 13% to 20.5 thousand RUB/tonne, for sunflower seeds – by 7% to 20.5 thousand RUB/tonne. The sales price for sugar beet also fell by 37% and amounted to RUB 1.6 thousand/tonne.

Sales price of Rusagro’s products in 2014–2018, RUB thousand/tonne, excl. of VAT

Rusagro’s sales price of grain crops in 2014–2018, thousand RUB/tonne, excl. of VAT

Rusagro’s sales price of oil crops in 2014–2018, thousand RUB/tonne, excl. of VAT
FINANCIAL RESULTS

As a result of higher sales volumes of Agriculture Business products and rising prices for grain crops, sales in 2019 increased by 24% (+ RUB 5.0 billion) and amounted to RUB 25.8 billion. Earnings before interest, taxes, depreciation, and amortisation (EBITDA) went up by 23% (+RUB 1.1 billion) to RUB 6.1 billion.

25.8 RUB billion +24%
sales of Rusagro’s Agriculture Business in 2019

In 2019, earnings growth was limited by record low prices for sugar beet that suffered a year-on-year decrease of 37%. Adjusted EBITDA margin remained virtually unchanged and amounted to 24%.

6.1 RUB billion +23%
adjusted EBITDA of Rusagro’s Agriculture Business in 2019

PLANS FOR 2020

In 2020, the Agriculture Business plans to proceed with extending the area of arable lands and expects a sustained increase in yields through the consistent improvement of production and management processes. As a result, Rusagro can again increase the gross collection of key agricultural crops. At the end of 2019, carry-overs of grain and oil crops approximated 530 thousand tonnes of products, a year-on-year decrease by 147 thousand tonnes.

Due to the ramp-up of the output, the Company will be preparing for the construction of an elevator in the Tambov Region during 2020 in order to reduce the need for third-party storage and to lower the costs. Meanwhile, the projects on automation and digitalisation, including the field-wise management of the land bank, will be very contributing to the improvement of the performance indicators and will make the Company a leader in the use of precision farming technologies both in Russia and across the globe.
In September 2018, Rusagro launched its fifth business with a focus on the production of dairy products. During 2019, Rusagro was working to extend the product range, improving the quality of products and setting up the sales. As a result, sales in the fourth quarter grew by 25% compared to the results of the first quarter.
OVERVIEW OF DAIRY PRODUCTS MARKET IN RUSSIA

MILK PRODUCTION

MilkNews Analytical Center (hereinafter – MilkNews) estimates that 31.3 million tonnes of raw milk was produced in 2019, which is 2% above the level of 2018. Such an increase is associated with a rise in milk yield per cow by 2% up to 3.9 kg and with herd expansion by 0.3% up to 8 million cows. In connection with improving marketability of milk to 71% (+0.7 p.p.), the output of commercial milk grew by 3% and amounted to 22.2 million tonnes. Particularly, agricultural enterprises increased their production volumes by 5% and peasant farm enterprises & individual entrepreneurs - by 6%, while private farm households suffered a 4% decline in their production.

22.2 million tonnes +3%
commercial milk production in Russia in 2019

The increased milk production in Russia in the reporting period is linked to the growing demand and higher production results achieved through the upgrade of the agricultural sectors, as more and more farmers use highly productive breeds and modern technologies for herd management, feeding, and reproduction.

In 2019, despite the slowdown of the end consumer demand for finished dairy products and the growth of imports as compared to 2018, the need for milk increased. The situation stemmed from the adoption of government measures to control milk and dairy products market in order to combat counterfeiting. Particularly, the Mercury commodity flow tracking system was adopted, the regulations for marking the milk-containing products were changed, and the regulations on separate shelves for products with milk fat substitutes were brought into effect.

Regional milk production structure remained stable. In 2019, the Volga Federal District and the Central Federal District accounted for 50% of the total milk yield in Russia, 9.7 and 6.0 million tonnes, respectively. In absolute terms, these regions have been growing at the fastest pace over the last three years. The volumes of milk production in 2019 in these districts increased by 2 and 5%, respectively. Particularly, the Central Federal District has been showing the most dynamical rise, which is due to the high concentration of consumers in the Moscow Region and relatively high state support.

31%
of raw milk produced in Russia was from the Volga Federal District in 2019

Commercial milk production in Russia in 2015-2019, million tonnes

<table>
<thead>
<tr>
<th>Year</th>
<th>Agricultural enterprises</th>
<th>Private farm households</th>
<th>Farm enterprises &amp; individual entrepreneurs</th>
<th>Raw milk production</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>1.4</td>
<td>4.5</td>
<td>13.9</td>
<td>19.8</td>
</tr>
<tr>
<td>2016</td>
<td>1.5</td>
<td>4.5</td>
<td>14.2</td>
<td>20.3</td>
</tr>
<tr>
<td>2017</td>
<td>1.7</td>
<td>4.5</td>
<td>14.8</td>
<td>21.0</td>
</tr>
<tr>
<td>2018</td>
<td>1.8</td>
<td>4.3</td>
<td>15.4</td>
<td>21.5</td>
</tr>
<tr>
<td>2019</td>
<td>1.9</td>
<td>4.2</td>
<td>16.2</td>
<td>22.2</td>
</tr>
</tbody>
</table>

DAIRY PRODUCTS PRODUCTION

The decline in real disposable household income in the first half of 2019 and the weak recovery by the end of the year made the buying activity continue to drop, leading to a reduction in the physical volume of consumption, primarily of traditional dairy products. Their production volume fell by 2% (−283 thousand tonnes) and amounted to 11.3 million tonnes. Meanwhile, an additional volume of commercial milk was used for the production of modern product categories such as cheese and cheese analogues (+4%, or +25 thousand tonnes), milk powder (+12%, or +17 thousand tonnes), and cream (+8 %, or 12 thousand tonnes).

13.6 million tonnes

Производство молочной продукции в России в 2019 г.

Dairy products production in Russia in 2015–2019, thousand tonnes

<table>
<thead>
<tr>
<th>Year</th>
<th>Whole milk products</th>
<th>Cheese and cheese analogues</th>
<th>Margarine and spreads</th>
<th>Ice-cream</th>
<th>Butter</th>
<th>Whole milk and skimmed milk powder</th>
</tr>
</thead>
<tbody>
<tr>
<td>'15</td>
<td>13,857</td>
<td>11,738</td>
<td>589</td>
<td>686</td>
<td>378</td>
<td>256</td>
</tr>
<tr>
<td>'16</td>
<td>14,024</td>
<td>11,896</td>
<td>605</td>
<td>651</td>
<td>407</td>
<td>251</td>
</tr>
<tr>
<td>'17</td>
<td>13,877</td>
<td>11,604</td>
<td>648</td>
<td>694</td>
<td>393</td>
<td>270</td>
</tr>
<tr>
<td>'18</td>
<td>13,877</td>
<td>11,575</td>
<td>673</td>
<td>632</td>
<td>447</td>
<td>235</td>
</tr>
<tr>
<td>'19</td>
<td>13,580</td>
<td>11,292</td>
<td>698</td>
<td>414</td>
<td>260</td>
<td>150</td>
</tr>
</tbody>
</table>

Source: MilkNews and Soyuzmoloko based on Rosstat data for January – November 2019; data for December 2019 are projections

In 2019, cheese output grew to 698 thousand tonnes. Simultaneously, as a result of government measures against the illegal use of milk fat substitutes, the production of cheese analogues decreased by 16% (~32 thousand tonnes), and the output of all other cheese products increased by 12%. (+57 thousand tonnes). The production of semi-hard cheese, which is the most popular cheese in Russia, enjoyed the greatest rise (+26 thousand tonnes, or +12%). As a result, the share of cheese analogues in the production structure fell from 31 to 25%, and the largest share (34%) was taken by semi-hard cheeses.

698 thousand tonnes

cheese production in Russia in 2019

Cheese production in Russia in 2015–2019, thousand tonnes

<table>
<thead>
<tr>
<th>Year</th>
<th>Whole milk products</th>
<th>Cheese and cheese analogues</th>
<th>Margarine and spreads</th>
<th>Ice-cream</th>
<th>Butter</th>
<th>Whole milk and skimmed milk powder</th>
</tr>
</thead>
<tbody>
<tr>
<td>'15</td>
<td>589</td>
<td>114</td>
<td>136</td>
<td>105</td>
<td>29</td>
<td>142</td>
</tr>
<tr>
<td>'16</td>
<td>605</td>
<td>126</td>
<td>146</td>
<td>102</td>
<td>34</td>
<td>60</td>
</tr>
<tr>
<td>'17</td>
<td>648</td>
<td>217</td>
<td>184</td>
<td>102</td>
<td>56</td>
<td>29</td>
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<tr>
<td>'18</td>
<td>673</td>
<td>214</td>
<td>206</td>
<td>112</td>
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<tr>
<td>'19</td>
<td>698</td>
<td>240</td>
<td>174</td>
<td>123</td>
<td>55</td>
<td>29</td>
</tr>
</tbody>
</table>

Source: MilkNews and Soyuzmoloko based on Rosstat data for January – November 2019; data for December 2019 are projections

KEY PLAYERS

The dairy production market in Russia is rather fragmented and the top 5 milk processors account for only 20% of the domestic output, and the top 5 cheese producers – for 20%. In 2019, Rusagro covered about 2% of Russian total cheese output.

Largest milk processors in Russia in 2019 (share of total milk processing capacities), %

1. In milk equivalent

Largest cheese producers in Russia in 2019 (share of total cheese production), %

EXTRACTIONS AND IMPORTS

In 2019, exports of dairy products in Russia increased to 402 thousand tonnes (+9%). The major share in deliveries was attributable to margarine and spreads (212 thousand tonnes, +16% year-on-year) with a share of 53% and whole milk products (108 thousand tonnes, −5% year-on-year) with a share of 27%. Cheese exports gained 14% of the total exports and amounted to 57 thousand tonnes (+16%, or +8 thousand tonnes). The growth of this category was mainly driven by the cheese analogues as their supplies grew by 17% (+6 thousand tonnes) and stood at 39 thousand tonnes.

57 thousand tonnes
+16%
cheese exports from Russia in 2019

Exports of milk and dairy products in Russia in 2015–2019, thousand tonnes

<table>
<thead>
<tr>
<th>Year</th>
<th>Margarine and spreads</th>
<th>Whole milk products</th>
<th>Cheese and cheese analogues</th>
<th>Whole milk powder and skimmed milk</th>
</tr>
</thead>
<tbody>
<tr>
<td>'15</td>
<td>329</td>
<td>125</td>
<td>213</td>
<td>3213</td>
</tr>
<tr>
<td>'16</td>
<td>352</td>
<td>130</td>
<td>37</td>
<td>17 3</td>
</tr>
<tr>
<td>'17</td>
<td>372</td>
<td>123</td>
<td>43</td>
<td>19 3</td>
</tr>
<tr>
<td>'18</td>
<td>368</td>
<td>114</td>
<td>49</td>
<td>20 2</td>
</tr>
<tr>
<td>'19</td>
<td>402</td>
<td>108</td>
<td>57</td>
<td>22 2</td>
</tr>
</tbody>
</table>

Source: MilkNews and Soyuzmoloko according to Rosstat data for January - November 2019; data for December 2019 are projections

MilkNews estimates that in 2019 the imports of milk and dairy products will amount to 1,028 thousand tonnes (+2% year-on-year). The import of the “Cheese” category declined by 7% (−24 thousand tonnes) due to the falling demand for cheese analogues (−37%), while the other product categories exhibited an upward trend. The most growth was observed in the imports of butter, with a volume reaching 105 thousand tonnes (+29%, or +24 thousand tonnes), which is stemming from the delivery of a shipment from far-abroad countries sent from late 2018 to early 2019, when the price level was relatively low.

306 thousand tonnes
-7%
projected cheese imports to Russia in 2019

Imports of milk and dairy products in Russia in 2015–2019, thousand tonnes

<table>
<thead>
<tr>
<th>Year</th>
<th>Whole milk products</th>
<th>Cheese and cheese analogues</th>
<th>Whole milk powder and skimmed milk</th>
</tr>
</thead>
<tbody>
<tr>
<td>'15</td>
<td>942</td>
<td>279</td>
<td>152</td>
</tr>
<tr>
<td>'16</td>
<td>994</td>
<td>292</td>
<td>182</td>
</tr>
<tr>
<td>'17</td>
<td>1,092</td>
<td>345</td>
<td>168</td>
</tr>
<tr>
<td>'18</td>
<td>1,007</td>
<td>330</td>
<td>119</td>
</tr>
<tr>
<td>'19</td>
<td>1,028</td>
<td>306</td>
<td>132</td>
</tr>
</tbody>
</table>

Source: MilkNews and Soyuzmoloko based on Rosstat data for January - November 2019; data for December 2019 are projections

In milk equivalent, 0.7 million tonnes of milk and dairy products were exported from Russia in 2019. The major importers of Russian dairy products were the former CIS countries, such as Kazakhstan (43%), Ukraine (14%), Belarus (10%), Uzbekistan (7%), and Tajikistan (6%).

43%
of milk and dairy products exported from Russia in 2019 were to Kazakhstan

In milk equivalent, 7.0 million tonnes of milk and dairy products were imported to Russia in 2019. Belarus is the main supplier of dairy product to Russia. In 2019, this country imported to Russia 73% of the total volume, which includes 81% of cheese and 48% of cheese analogues. In 2019, Top-5 countries, other than Belarus, selling dairy products to Russia were New Zealand (6%), Argentina (5%), Uruguay (5%), and Kazakhstan (2%). These countries mainly imported milk powder, butter, ice-cream, and cheese analogues to Russia.

73%
of milk and dairy products imported to Russia in 2019 were from Belarus
PRICES

In 2019, the average annual price of raw milk increased by 9% and stood at RUB 24.9 per kg, excl. of VAT, which is a record high over the last five years. The following three factors made the largest contribution to the price:

- toughening measures to combat the counterfeit of dairy products, which drove up the demand for milk fat and protein;
- evening-out the stocks of products at the beginning of the year due to declining imports in the second half of 2018, as well as the growth of the production cost of raw milk;
- increase in the share of agricultural enterprises in total milk production, which reduced volatility through the stabilisation of production volumes during the year.

Sales prices of commercial milk in Russia in 2018-2019, RUB/kg, excl. of VAT

In 2019, the average annual producer prices for finished dairy products remained above the last year figures across all categories, which is due to rising costs of raw milk. However, prices for whole milk products were adjusted after a major increase in 2018 and dropped by 3% (to RUB 108 per kg, excl. of VAT). The prices for margarine and spreads gained the most: their sales prices picked up by 27% to RUB 99 per kg on the back of tightening control over the quality of dairy products. It also gave rise to higher prices for milk-intensive categories: cheeses and cheese analogues (+11%), butter (+11%), and skimmed milk powder (+11%).

Selling prices of certain categories of dairy products in Russia in 2015-2019, RUB/kg, excl. of VAT

Source: MilkNews and Soyuzmoloko based on Rosstat data

OUTLOOK FOR 2020

According to the forecasts of the MilkNews for 2020, the long-term trend of ramping-up the production of commercial milk will continue due to the introduction of new complexes and the intensification of production. The annual gain in the production of commercial milk can be up to 700 thousand tonnes.

Two fundamental factors will influence the price trend of the Russian dairy market – the domestic dairy market conditions and the global price behaviour. Consolidation of the milk processing market, expanding capacities of existing players, and growing consumer and network retail requirements for the quality of finished products can lead to an increase in average milk purchase prices in 2020.

Efforts to boost the exports of dairy products to Southeast Asia and Africa may have an impact on the milk market, however, overcoming administrative barriers and adapting products to demand in these countries will take time. The development of exports to the CIS countries will be impeded by supplies from Ukraine, against which the prices of Russian producers are uncompetitive. Import of butter and cheese from Australia, New Zealand, and South America will depend on the strength of key players brands, but no significant changes are expected in this segment of imports.
OUTCOMES OF 2019

BUSINESS OVERVIEW

In 2018, Rusagro launched its fifth business - Dairy Products. The Company rented Koshkinsky Butter and Cheese Plant in the Samara Region and the Zavolzhsky Dairy Plant in the Ulyanovsk Region and sales dairy products under three brands.

1. Butter and cheese production
   - Production of cheese and cheese analogues, butter and spreads, cream and dry mixes of cheese whey.
   - Milk processing capacity: 270 tonnes of milk per day.
   - Production capacity of dry industrial mixes: 14 thousand tonnes per year.
   - Milk is purchased from farms in the Ulyanovsk and Samara Regions and in the Republic of Tatarstan.

2. Production of dry mixes
   - Production of dry industrial mixes based on cheese whey.
   - The mixes are sold to food manufacturers as instant food ingredients, such as dry cream for instant coffee and additives for meat and confectionery products.

3. Sales
   - The plant’s products are represented by three brands: Milie, Syrnaya Kultura (Cheese Culture) and Buterbrodnoe utro (Sandwich Morning).
   - Milie trademark products include natural semi-hard cheeses and butter of above-average price brackets.
   - From the end of 2019 cheese analogues are sold under the Syrnaya Kultura brand in the “average minus” price brackets.
   - The Buterbrodnoe utrobrand offers low-cost dairy and non-dairy spreads.
AUTOMATION AND INNOVATION

In 2019, the Dairy Products Business specialists developed and defended a five-year information technology strategy plan. Enhancing the efficiency through the centralisation of IT functions and further digitalisation of the business are the key drivers of the strategy.

1. Migration to the latest accounting system. The project moved the Company to a new quality level of management and accounting and improved the quality of business tax administration.

2. The integration with the Mercury State System for veterinary accompanying documents was actualised in the part relating to production and logistics operations. The project was aimed at satisfying state requirements and the requirements of federal supermarket chains, as well as improving the efficiency of business processes.

3. The integration with IT systems of Rusagro’s common service centre with the transfer of financial functions, which made it possible to include the Dairy Products Business in the general regulations and management procedures of the Company’s Financial Service.

4. An integration project with the Atrax Logistics was completed, which allowed for more transparent contracting of carriers for trips and reduced the cost of finished goods logistics.

5. An electronic document management system according to Rusagro standards was brought into use, which ensured the compliance with the Company’s internal policies and regulations, including the procurement and counterparties settlement policy.

Significant projects of 2019:
OPERATIONAL RESULTS

Production
In 2019, Rusagro increased the plant utilisation rate to 97% and produced 15.5 thousand tonnes of dry industrial mixes and 11.5 thousand tonnes of finished products. The output of cheeses reached 8.1 thousand tonnes, which includes 5.3 thousand tonnes of cheese analogues and 2.8 thousand tonnes of cheese. The output of butter and spreads amounted to 1.9 thousand tonnes, weakening during the year due to the low profitability of butter and the contracting demand for spreads. Starting from the third quarter, the Company re-directed the surplus amounts of milk fat into the production of cream, a category with higher profitability.

27 thousand tonnes
of dairy products were produced by Rusagro in 2019

Rusagro’s dairy products output in 2019, thousand tonnes

Sales
In the reporting year, Rusagro sold 15.4 thousand tonnes of dry industrial mixes and 11.7 thousand tonnes of the main types of finished products. Cheese and cheese analogues accounted for the majority of sales (72%), another 16% went to butter and spreads and the remaining 12% - to cream. In addition to the main products, the Company sold 613 tonnes of dairy beverages and a pilot batch of non-dairy beverages in the amount of 19 tonnes. Since September 2019, the Company has not been producing and selling dairy beverages any more.

27 thousand tonnes
of dairy products were sold by Rusagro in 2019

Rusagro’s dairy products sales in 2019, thousand tonnes

Most of the cheese and oil & fat products, 67 and 88% respectively, were sold to distributors and wholesale customers, the balance - to retail chains. The prevalence of the distribution channel is attributable to the product mix, namely, the predominance of weight-type products, including those that required re-packaging. In order to promote sales to retail networks in 2019, systematic efforts were made to shift the focus towards manageable sales, packaged product mix, and building contacts with networks, including through tendering shipments.

In 2019, Rusagro sold 41% of all dairy products in the Volga Federal District, which is explained by the location of producing units and the strong position of JSC ALEV in this region. The sales in the Ural and Southern Federal Districts Company amounts to 15% in each of the districts and in the Northwestern and Central Federal Districts - to 12 and 11%, respectively. Moreover, these regions, except for the Southern Federal District, are of strategical value since the major part of the Company’s consumers is localised there.

41%
of Rusagro’s dairy products were sold in the Volga Federal District in 2019

Prices

The selling prices in 2019 corresponded to the average prices in the region of sales. Owing to the implementation of state measures to regulate the quality of dairy products, prices for cheese analogues and spreads were going down during the year, while prices for cheese and butter were trending upwards. Prices for dry industrial mixes also exhibited a positive trend.

283 RUB per kg, excl. of VAT

average selling price of Rusagro cheese in 2019

Selling prices for Rusagro’s dairy products in 2019, RUB/kg, excl. of VAT

<table>
<thead>
<tr>
<th>Product Type</th>
<th>Price (RUB/kg)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Butter</td>
<td>282</td>
</tr>
<tr>
<td>Cheese</td>
<td>201</td>
</tr>
<tr>
<td>Cheese analogues</td>
<td>179</td>
</tr>
<tr>
<td>Spreads</td>
<td>92</td>
</tr>
<tr>
<td>Dry mixes</td>
<td>80</td>
</tr>
</tbody>
</table>

FINANCIAL RESULTS

In 2019, the earnings of Dairy Products Business amounted to RUB 3.9 billion. On the back of growing sales volumes and rising selling prices, Rusagro has been gradually increasing its sales during the year. Adjusted earnings before tax and depreciation (EBITDA) amounted to RUB 63 million. Quarterly profit during the year was lower than that in Q4 2018. Such negative dynamics was spurred by higher prices for commercial milk, including due to the improved quality of purchased milk and sales of milk fat through low-income product categories, as well as by losses resulted from the experimental launch of non-dairy beverages and spotty quality of cheese. Adjusted EBITDA margin was 2%.

3,870 RUB million

Sales

63 RUB million

Adjusted EBITDA

2%

Adjusted EBITDA margin

In September 2018, Rusagro launched its fifth business with a focus on the production of dairy products. It is the first time when the Company discloses its results for the full calendar year.

PLANS FOR 2020

In 2020, Rusagro’s Dairy Products Business will focus on two key areas. First area includes the release of a cheese analogue in a fixed-weight package under the Syrnaya Kultura (Cheese Culture) brand and a spread; the demand for the latter is projected to grow due to a fall in disposable incomes of households. Second area covers the production of cheese in consumer packaging under the Mille brand.

Federal and local retail networks will be chosen as target distribution channels. In the face of growing competition, the price will be the key success factor, therefore, Dairy Products Business will give particular attention to its operating performance - in 2020 there are plans to implement several investment projects intended to reduce losses of dairy raw materials and improve the quality of finished products. Choosing a more profitable option for the utilisation of milk fat remaining from cheese production will also be a large contribution to enhancing the financial performance of the Dairy Business.
RUSAGRO HAS BEEN COMMITTED TO UPHOLDING THE RUSSIAN AND INTERNATIONAL STANDARDS AND BEST PRACTICES IN CORPORATE GOVERNANCE. THE COMPANY’S EFFECTIVE CORPORATE GOVERNANCE SYSTEM IS CRUCIAL FOR THE LONG-TERM STABILITY OF THE BUSINESS AND THE RISE IN SHAREHOLDER’S VALUE.
Rusagro understands that a quality corporate governance system is an essential factor influencing the investment appeal, trust of the investment community and business reputation, and seeks to improve and develop its corporate governance system.

The public status of the Company requires higher standards of corporate governance. The global depositary receipts (GDRs) issued for the Company’s shares are listed on London and Moscow stock exchanges.

The Company’s fundamental documents on corporate governance are as follows:
- The Company’s Articles of Association;
- Code of Business Conduct and Ethics;
- The Company’s Code of Conduct for the Prevention of Insider Trading;
- The Company’s Regulation on the Board of Directors;
- The Regulation on the Audit Committee of the Company’s Board of Directors.

**Code of Business Conduct and Ethics**

A new version of 2014 Code of Business Conduct and Ethics was approved in 2017. It includes the following guidelines:
- Basic rules, principles and values governing the Company’s activities;
- Standards of business and social conduct;
- Ethical standards for internal and external corporate relations;
- Commitment to social accountability to employees, shareholders, business partners, the state, and the society.

The Code has derived from generally accepted rules of corporate ethics and business conduct, international laws and documents that define best corporate governance practice. It is a valuable instrument for creating a strong corporate culture and a well-defined system of corporate values that determine and shape the Company’s reputation, its competitive capacity, and effectiveness.

The Code extends over all subsidiaries and affiliated companies of the Group. Its provisions cover, and apply to, members of the Board of Directors, senior executives, and other employees of the Company.

In addition to the Code, all employees must observe the relevant international anti-corruption acts, in particular:
- The UK Bribery Act;
- The US Foreign Corrupt Practices Act (FCPA);
- The Company’s anti-corruption regulations and other current anti-bribery laws applicable to the Company or its employees.

The Company’s Code of Conduct for the Prevention of Insider Trading

As a public company, Rusagro has extensive responsibilities on establishing and observing a special procedure for the disclosure of information that can materially affect the price of the Company’s securities.

In 2011, the Company adopted a Code of Conduct for the Prevention of Insider Trading (revision 2) that applies to all of its employees and members of the Board of Directors.

The Company uses the relevant global best practices to ensure equal access of all securities market participants to sensitive information while striving to prevent unlawful use of insider information.

In addition to understanding and observing the Company Code of Conduct for the Prevention of Insider Trading, the employees must adhere to international acts on the use and disclosure of insider information, in particular:
- The Cyprus 2016 Market Abuse Law;
- The UK 2000 Financial Services and Markets Act (Financial Services and Markets Act (FSMA));
- The Disclosure and Transparency Rules (DTR) of the UK Financial Services Authority;
- The UK 1993 Criminal Justice Act and other applicable laws and (or) the rules of the regulatory authorities.
**Governance and control system**

In accordance with the Articles of Association, the Company's corporate governance system includes as follows:

- The General Shareholder Meeting;
- The Board of Directors;
- The Audit Committee of the Board of Directors;
- The Managing Director.

**The Company's governance and control system**

**GENERAL SHAREHOLDER MEETING**

The General Shareholder Meeting is the Company's supreme management body. The Annual General Meeting is held once a year. Any additional General Shareholder Meeting is regarded as an extraordinary general meeting. The General Shareholder Meetings are held at 25 Aphrodite Street, 3rd floor, office 300, 1060 Nicosia, Cyprus. If there is a necessity to change the location, the Company’s Board of Directors appoints the date and place of the Annual General Meeting and extraordinary meetings.

The General Shareholder Meeting holds exclusive authority to:

- Announce the payment of dividends on the Company’s securities;
- Decide upon the issues of shares and other Company’s securities;
- Decide upon the acquisition of the shares previously issued by the Company;
- Approve the Company’s financial statements;
- Review the reports of the auditors and the Board of Directors;
- Approve the Company’s annual reports;
- Appoint members of the Board of Directors;
- Elect an auditor for the Company and decide upon its remuneration;
- Approve the purchase of the Company’s shares by the members of the Board of Directors;
- Decide on the dissolution of the Company.

In 2019, the Company held three General Shareholder Meetings: on 15 March (extraordinary General Shareholder Meeting), on 26 September (Annual General Shareholder Meeting), and on 13 September (extraordinary General Shareholder Meeting).

In March 2019, the General Shareholder Meeting decided to place an additional issue of global depositary receipts issued for shares of the Company, approved the right of the Board of Directors to increase the authorised capital of the Company (no later than 31 December 2019), and reached a decision on refusal to exercise pre-emptive rights in respect of the shares placed. However, such GDR placement was not made in 2019.

The Annual General Meeting in April 2019 approved as follows:

- 2018 Audited Consolidated Financial Statements;
- 2018 Audited Separate Financial Statements;
- 2018 Independent Auditor’s Report;
- 2018 Annual Report;
- 2018 Dividend Payout.

In September 2019, the extraordinary General Shareholder Meeting approved the decision on the payment of interim dividends for 2019.

Minutes of General Shareholder Meetings are available at the Company web page under Ros Agro PLC Corporate Documents Section.
The Board of Directors is the Company’s collective governance body responsible for overall management of the Company’s business, except for issues within the exclusive authority of the General Shareholder Meeting. The Board of Directors has a collective responsibility to the shareholders for the Company’s performance.

The Board sets out strategic objectives, mobilises financial and human resources needed to achieve them, and measures the Company’s management performance. The Board of Directors also determines the values and standards of corporate governance and makes sure that the Group meets its obligations to shareholders.

Pursuant to the Company’s Articles of Association, the Board shall have at least two and no more than five directors, with at least two of them being non-executive directors.

The Annual Meeting of Shareholders held on 26 April 2019 re-elected the Board of Directors comprising as follows:

- **VADIM MOSHKOVICH**
  Chairman of the Board of Directors, ROS AGRO PLC

- **TASSOS TELEVANTIDES**
  Member of the Board, ROS AGRO PLC, Independent Director

- **RICHARD ANDREW SMYTH**
  Member of the Board, ROS AGRO PLC, Independent Director

- **MAXIM BASOV**
  Member of the Board, ROS AGRO PLC, Chief Executive Officer of JSC Rusagro Group and LLC Rusagro Group of Companies

- **ANNA KHOMENKO**
  Member of the Board, Managing Director and Compliance Officer, ROS AGRO PLC
VADIM MOSHKOVICH
Chairman of the Board of Directors, ROS AGRO PLC

Born in 1967;

In 1992, Mr. Moshkovich graduated from the Moscow State Institute of Radio Engineering, Electronics and Automation (currently known as the Moscow Technological University);

In 1995, he started his career in agribusiness as head of CJSC Shugarimpeks Trading and Sugarimpeks Trading Company;

From 1999 to 2006, he was Chief Executive Officer and co-owner of a group of companies that were consolidated into LLC Rusagro Group of Companies in 2003;

From 2006 to 2014, he was a member of the Federation Council, the upper house of the Federal Assembly of Russia (the Parliament), where he represented the Belgorod region and sat on the Committee for Economic Policy;

In May 2015, Mr. Moshkovich was elected Chairman of the Board of ROS AGRO PLC;

Shareholding - 70.7% of the Company’s GDRs.

TASSOS TELEVANTIDES
Member of the Board, ROS AGRO PLC, Independent Director

Born in 1948;

From 1994 to 1998, Mr. Televantides was a member of the ICPAC Board of Directors;

from 2002 to 2008, was Honorary Treasurer of the Limassol Chamber of Commerce and Industry;

Since 2008, he has been Chairman of CyproDirectLimited;

Since 2009, he has been Board Chairman at Limassol Bishopric;

For more than 20 years, he has been a partner at Pricewaterhouse Coopers Cyprus. He held directorships in a Canadian pharmaceuticals group, Norwegian construction and drilling company, Gazprombank Financial Services (UK) Limited, and Olivant Investments;

Mr. Televantides is a certified auditor of the highest category;

In November 2011, he was elected a member of the Board and Chairman of the Board Audit Committee of ROS AGRO PLC;

Shareholding - 0.01% of Company’s GDRs.

RICHARD ANDREW SMYTH
Member of the Board, ROS AGRO PLC, Independent Director

Born in 1962;

In 1984, Mr. Smyth graduated from Oxford University;

From 2003 to 2009, he was the General Manager at LLC Mars;

Since January 2009, he has been the Regional President of MARS Central Europe and CIS;

From February 2011 to May 2015, Mr. Smyth served as Chairman of the Board of Directors of ROS AGRO PLC;

Shareholding - 0.02% of Company’s GDRs.

ANNA KHOMENKO
Member of the Board, Managing Director and Compliance Officer, ROS AGRO PLC

Born in 1977;

Mrs Khomenko studied international law at the Institute of International Relations of the Taras Shevchenko National University of Kyiv, Ukraine. She continued her studies at Keele University in the UK, which she graduated with a dual degree in Law and International Politics in 1999;

In 2000, she completed a Legal Practice Course at the University of Law Chester, UK;

Till 2007, Ms Khomenko headed the Corporate Department of Excel Serve Management (Cyprus), served as a service provider;

From 2007 to 2009, she was the Chief Executive Officer of IFG Trust (Cyprus) Limited, specialising in financial and corporate services for businesses and individuals;

Ms Khomenko currently holds the position of the Managing Partner at Fiduciana Trust (Cyprus) Limited;

Since 2011, she has been a Member of the Board of ROS AGRO PLC;

She does not have any shareholding in the Company.

MAXIM BASOV
Member of the Board, ROS AGRO PLC, Chief Executive Officer of JSC Rusagro Group and LLC Rusagro Group of Companies;

Born in 1975;

In 1996, Mr. Basov graduated from New York University where he majored in Economics and Finance, International Business and Philosophy;

He held management positions at OJSC Severstal, OJSC Kuzbassugol, OJSC Severstal Resource, and Interpipe Research, Industries and Investment Group;

From 2006 to 2009, he headed Metalloinvest;

In 2011, Mr. Basov was elected Member of the Board of ROS AGRO PLC;

In 2009, he was appointed Chief Executive Officer of LLC Rusagro Group of Companies;

Shareholding - 7.2% of the Company’s GDRs.

From 2006 to 2009, he headed Metalloinvest;

In 2011, Mr. Basov was elected Member of the Board of ROS AGRO PLC;

In 2009, he was appointed Chief Executive Officer of LLC Rusagro Group of Companies;

Shareholding - 7.2% of the Company’s GDRs.
In 2018, the Board held four in-person meetings: on 13 March, 17 May, 16 August, and 16 November. Vadim Moshkovitch was appointed the Chairman of the meetings on 13 March 2019, 17 May 2019, and 16 August 2019. The Board’s meeting on 16 November 2019 was chaired by Anna Khomenko. The quorum present met the requirements of the Company’s Articles of Association.

In March 2019, the Board reviewed and approved the following issues:
- Financial results for Q4 and twelve months of 2018;
- Press-release on the financial results for twelve months of 2018;
- Results of the Audit Committee meeting held on 11 March 2019;
- Annual Report, including information on the structure of the management team, corporate governance and corporate social responsibility, and a review of financial results;
- Approval of an Auditor for 2019 and its remuneration;
- Recommendations for payment of dividends for the second six months of 2018 in accordance with the Company’s dividend policy;
- Remuneration for the Company’s senior management team for 2018 and scheduled changes in the management team, 2019 employee stock option plan;
- Business plan for 2019;
- Capex forecast for 2019;
- Presentation on M&A opportunities for Rusagro in 2019;
- Setting a date for the Annual General Meeting of Shareholders;
- Consideration of amending the Article of Association.

In May 2019, the Board reviewed and approved the following issues:
- Q1 2019 financial results;
- Results of the Audit Committee meeting held on 16 May 2019;
- Status update of M&A projects and related opportunities for 2019;
- Discussion of SPO.

In August 2019, the Board reviewed and approved the following issues:
- Financial results for Q2 and six months of 2019;
- Convening an extraordinary General Shareholder Meeting to decide on the dividend payout for the first six months of 2019;
- Updated capex information;
- Status update of M&A projects and related opportunities for 2019;
- Recommendations for the dividend payout for the first six months of 2019 in accordance with the Company’s Policy;
- Results of the Audit Committee meeting held on 13 August 2019;
- Presentation of the Company’s business strategy for 2019-2025;
- Setting a date for an extraordinary General Meeting of Shareholders;
- Determination of an investment business strategy on the territory of People’s Republic of China;
- Approval of a subsidiary to be established in China - Ros Agro Trading Limited;
- Sharing information with members of the Board of Directors about the possibility of SPO.

In November 2019, the Board reviewed and approved the following issues:
- Financial results for Q3 and nine months of 2019;
- Results of the Audit Committee meeting held on 14 November 2019;
- Plans for possible changes in the structure of the management team and introduction of new positions by the end of 2019;
- Presentation of the capex report for the Company’s major projects with aggregate investments;
- Status update of M&A projects and related opportunities for 2019;
- Discussion of the possibility of approving a new Compliance Policy;
- Determination of an investment business strategy on the territory of People’s Republic of China;
- Dates for the Board’s Meetings in 2020.

The decisions adopted are detailed and made available at the Company’s web page under Ros Agro PLC Corporate Documents Section.
AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

The Audit Committee was established to enhance the performance and effectiveness of the Board of Directors. The Audit Committee is governed by the Charter of the Audit Committee adopted by the Board of Directors as required by the laws of the Republic of Cyprus, the Company’s Articles of Association, the Regulation on the Board of Directors, and the decisions of the Board.

The main responsibilities of the Audit Committee are as follows:

• Assist the Board in making decisions related to reporting and auditing;
• Raise the effectiveness of Board control over the financial and economic activities of the Company through preliminary reviewing and preparing recommendations for the Board on matters within the Board’s competence;
• Create an effective system of control over the financial and economic activities of the Company and ensure the Board’s participation in controls over the Company’s financial and economic activities.

The Audit Committee is elected by the Company’s Board of Directors. The Audit Committee may only be chaired by a non-executive director.

In 2019, the Audit Committee had the following membership:
• Tassos Televantides (Chairman)
• Richard Andrew Smyth
• Anna Khomenko

In 2019, the Board’s Audit Committee held four in-person meetings: on 11 March, 16 May, 13 August, and 14 November.
CORPORATE MANAGEMENT

MAXIM BASOV
Member of the Board, ROS AGRO PLC, Chief Executive Officer of JSC Rusagro Group and LLC Rusagro Group of Companies

ALEXEY PODOLYAKIN
Chief Financial Officer, LLC Rusagro Group of Companies

SERGEY KOLTUNOV
Director of Legal and Corporate Affairs, LLC Rusagro Group of Companies

OLGA FEDOROVA
HR Director, LLC Rusagro Group of Companies

SVETLANA KUZNETSOVA
Head of Investment Department, LLC Rusagro Group of Companies

DMITRY BREKHOV
Head of Internal Audit, LLC Rusagro Group of Companies
ALEXEY PODOLYAKIN
Chief Financial Officer, LLC Rusagro Group of Companies
Born in 1976;
In 1998, Mr. Podolyakin graduated from the Ivanovo State University with a major in National Economy;
Before joining Rusagro, he held senior positions at SUN InBev Russia;
From 2013 to 2018, he has been Chief Financial Officer of Sugar Business in LLC Rusagro Group of Companies;
In January 2018, Mr. Podolyakin was appointed Chief Financial Officer of LLC Rusagro Group of Companies.

SERGEY KOLTUNOV
Director of Legal and Corporate Affairs, LLC Rusagro Group of Companies
Born in 1980;
In 2003, Mr. Koltunov graduated from the Lobachevsky State University of Nizhny Novgorod, Law Faculty;
In 2004, he received the second higher degree in Economics and Management;
In 2011, he completed a management training course at the Russian Presidential Academy of National Economy and Public Service;
Before joining Rusagro, Mr. Koltunov headed legal departments and held other senior positions at Russky Alkohol Group and Danone Group;
Since 2013, he has been Director of Legal and Corporate Affairs of LLC Rusagro Group of Companies;
In 2019, he was included in the Top 1000 Russian Managers rating by the Kommersant Publishing House and the Legal 500 GC Powerlist: Russia 2019 rating.

OLGA FEDOROVA
HR Director, LLC Rusagro Group of Companies
Born in 1979;
In 2000, she graduated from the Technological Department of the State University of Non-Ferrous Metals and Gold, majoring in metallurgy;
In 2006, she graduated from the Russian University of Economics named after G.V. Plekhanov, majoring in Economics and Management;
Before joining Rusagro, Mrs Fedorova worked in the HR management in Russian Aluminium Company;
From 2006 to 2018, she held senior HR management positions in Rusagro Sugar Business, including Head of Human Resources;
In January 2019, Mrs Fedorova was appointed HR Director of Rusagro Group;
She is a holder of the international certificate in Global Remuneration (GRP) from WorldatWork (USA).

SVETLANA KUZNETSOVA
Head of Investment Department, LLC Rusagro Group of Companies
Born in 1989;
In 2011, she graduated from the National Research University Higher School of Economics, majoring in world economy and international business;
From 2012 to 2015, she was the Head of Funds & Investment Services Department of Europe Finance Ltd;
In 2016, she was Senior Analyst at the Skolkovo Institute of Science and Technology supporting National Technology Initiative FoodNet;
In June 2016, she was appointed the Marketing Manager of LLC Rusagro-Ovoschi to develop an investment project for launching a vegetable business;
Since October 2016, she has held the position of Head of Investment Department of LLC Rusagro Group of Companies.

DMITRY BREKHOV
Head of Internal Audit, LLC Rusagro Group of Companies
Born in 1971;
In 1997, Mr. Brekhov graduated from the Faculty of Economics of the Lomonosov Moscow State University, majoring in Accounting and Audit;
Before joining the Company, Mr. Brekhov headed the Internal Audit function at AGRICO Agricultural Investment Company and Antanta Pioglobal Investment Group;
In October 2010, he was appointed Head of Internal Audit of LLC Rusagro Group of Companies.
In 2009, he graduated from the Tyumen Industrial University, majoring in Information Technology and Management Systems; and  

In 2011, received a Master’s degree in System Analysis from the Moscow Institute of Physics and Technology;  

From 2010 to 2011, Mr. Sluchevsky worked at KPMG in the management consulting department;  

From 2010 to 2016, he worked as a consultant at McKinsey & Company, an international consulting company, where he gained diverse functional and industrial experience;  

From 2016 to 2019, Mr. Sluchevsky headed one of the leading companies in the market of sausage products (in the top 10 of the national rating);  

In 2019, he was appointed the head of the Meat Business.

In 2002, Mr. Garnov graduated from the Stankin Moscow State Technological University, Mechanics and Control Faculty, majoring in engineering;  

In 2003, he received a degree in Accounting, Analysis, and Audit;  

Since 2016, he has been Ph.D. candidate in soil science;  

From 2004 to 2010, he worked his way up from the Head of the Internal Audit Department to the position of Chief Executive Officer of LLC Don-Agro in OJSC Razgulay Group;  

From 2010 to 2014, Mr. Garnov was Executive Director of CJSC Rylskaya Farming Firm in United Confectioners Holding;  

Before joining Rusagro, he held the Director position of the Crop Production Division in PJSC Cherkizovo Group;  

In July 2018, Mr. Garnov was appointed Deputy Chief Executive Officer of LLC Rusagro-Invest;  

Since January 2019, he has been Chief Executive Officer of LLC Rusagro-Invest and Head of Rusagro Agricultural Business.

In 1996, Mr. Zhirkov graduated from the Chelyabinsk State Technical University with a degree in Applied Matematics;  

In 2004, he received an MBA at the Stockholm School of Economics (Sweden);  

From 1997 to 2005, he worked at WRIGLEY Russia;  

From 2005 to 2009, he was Chief Executive Officer of SPORTLAND Russia of SPORTLAND INTERNATIONAL;  

In September 2009, he was appointed Commercial Director of LLC Rusagro-Centre;  

In October 2011, he was appointed Chief Executive Officer of LLC Rusagro-Centre;  

Since November 2011, Mr. Zhirkov has been at the head of the Sugar Business.
In 1993, Mrs Sakhnina graduated from the Ural Polytechnic Institute named after S.M. Kirov, majoring in Organisation and Planning in the Iron and Steel Industry, with a qualification as Planning Engineer;

From 1997 to 1999, she worked as a regional sales manager for Colgate Palmolive;

From 1999 to 2009, she served in a variety of positions at JSC Multon;

From 2009 to 2011, she held the position of Commercial Director at JSC Wimm Bill Dann;

From 2011 to 2013, she served as Commercial Vice President of PepsiCo Dairy Business;

From 2013 to 2015, she served as General Director at Venskiy Tsech;

In 2015, according to RBC magazine, she was included in the Top 25 Women of Influence rating;

From 2017 to 2018, she held the position of General Director of JSC PanClub;

In August 2019, she was appointed the head of the Oil and Fats Business.

Born in 1971

NATALIA SAKHNINA
Head of the Oil and Fats Business

In 2003, Roman Danilin graduated from the Plekhanov Russian Academy of Economics with a degree in Corporate Management;

From 2001 to 2011, he worked on different positions at OJSC Hlebprom;

From 2011 to 2013, he serves as General Director at PMZ Company;

From 2013 to 2015, he serves as General Director at Venskiy Tsech;

From 2015 to 2017, he serves as General Director at the Cheriomyshki Confectionery factory;

In 2017, Mr. Danilin was included in Top 250 Executives rating of the Kommersant Publishing House in Consumer Products Manufacturing;

From 2017 to August 2019, he headed the Oil and Fats Business;

In September 2019, he was appointed Head of the Dairy Business.

Born in 1981

ROMAN DANILIN
Head of the Dairy Products Business

The remuneration paid to 12 representatives of key management personnel, included in payroll costs, comprised short-term remuneration such as salaries, discretionary bonuses and other short-term benefits totalling RUB 731 million, including RUB 62 million payable to the State Pension Fund (2018: RUB 724 million and RUB 65 million, respectively).

Included in the share-based compensation and other remuneration to Company Directors disclosed above, are the Company Directors’ fees, salaries and other short-term benefits totalling RUB 525 million as for 2019 (2018: RUB 470 million). During 2019, the amount of dividends paid to the Company Directors amounted to RUB 380 million (2018: RUB 130 million).

In 2014, Rusagro initiated a share option incentive scheme for its top-management. Under this scheme the employees will be granted GDRs of the Company provided they remain in their position up to a specific date in the future. The amount of GDRs granted will be dependent on the average market prices of GDRs for the period preceding this date.

In 2017, the Company initiated a new share option incentive scheme for its top-management. Expenses recognized under this scheme for 2019 amounted to RUB 27 million (2018: RUB 18 million) and gain resulting from the reduction of number of employees for 2019 amounted to RUB 40 million. In 2019, 31,000 GDRs were transferred to the employees under the share option incentive schemes. As at 31 December 2019, the share-based payment reserve accumulated in equity amounted to RUB 1,314 million for share-based payments (2018: RUB 1,327 million).
SHAREHOLDER AND INVESTOR RELATIONS

SHARED CAPITAL STRUCTURE

As of the end of 2019, the Company’s Authorised Capital was made up of 60,000,000 declared ordinary shares and 27,333,333 issued ordinary shares with par value of EUR 0.01 each.

In April 2011, the Company made an initial public offering (IPO) (by listing the global depository receipts (GDRs) with 5 GDRs representing one share) and listed on the London Stock Exchange (LSE). The listing included 4,000,000 shares issued by the Company (including a greenshoe option) and 1,000,000 shares offered by the controlling shareholders of the Company at a price of USD 15 per one GDR. Alfa Capital Holdings (Cyprus) Limited, London Branch, Credit Suisse Securities (Europe) Limited, and Renaissance Securities (Cyprus) Limited investment banks acted as joint global coordinators, bookrunners, and lead managers. The Company’s proceeds from the IPO amounted to about USD 300 million, net of expenses for fees and commissions, and post-IPO capitalisation was USD 1,800 million.

To expand the investor base, it was decided to list on the Moscow Exchange MICEX-RTS. On 26 November 2014, the global depository receipts of ROS AGRO PLC (ISIN US7496552057) were admitted for trading on First Tier (top) quotation list. The trading of the GDRs began on 1 December 2014.

In May 2016, the Company made a second public offering (SPO) of its depositary receipts. A total of 3,333,333 shares issued by the Company, or 16,665,665 GDRs at a price of USD 15 per GDR, were placed. J.P. Morgan Securities plc, UBS Limited, and VTB Capital plc investment banks acted as joint global coordinators and bookrunners. The Company’s proceeds from IPO approximated USD 250 million, net of expenses for fees and commissions. Rusagro’s post-SPO market capitalisation was USD 2,050 million.

As of 31 December 2019, the Company owned a total of 2,166,313 GDRs, equivalent to about 433,263 shares.

Company tickers:
- Reuters – AGRORq.L;
- Bloomberg – AGRO LI Equity;
- LSE – AGRO;
- MOEX – AGRO.
The Company’s shared capital structure, pre-IPO, %

- V. Moshkovich family: 94.7%
- Management: 5.3%

Shared capital structure, post-IPO, %

- V. Moshkovich family: 75.0%
- Free-float: 18.0%
- Management: 6.9%

Shared capital structure, post-SPO, %

- V. Moshkovich family: 70.7%
- Free-float: 20.8%
- Management: 6.9%
- Treasury shares: 1.6%

The Company’s shared capital structure as of 31 December 2019, %

- V. Moshkovich family: 70.7%
- Free-float: 20.4%
- Management: 7.3%
- Treasury shares: 1.6%

Quotes of the Company’s GDR on the London Stock Exchange (from 1 January to 31 December 2019), in USD per GDR

Quotes of the Company’s GDR on the Moscow Stock Exchange (from 1 January to 31 December 2019), in USD per GDR.
DIVIDEND POLICY

In August 2013, the Company adopted a dividend policy stipulating that at least 25% of the Company’s net profit should be paid out annually as dividends.

The Company’s dividend policy is built on the following key principles:

• Uphold of shareholders’ rights as defined by the legislation;
• Balance between the interests of shareholders and the Company’s needs;
• Need to develop the Company and improve its investment appeal;
• Transparency of the procedure for calculating and paying out the dividends.

In 2018, the Board of Directors recommended to pay out a total of RUB 4.5 billion (USD 68.6 million) as dividends to shareholders, which is equivalent to 35% of net profit of the Company for 2018.

The first interim dividends in 2019 were paid in the amount of RUB 1.7 billion (USD 25.6 million), or RUB 62.6 (USD 0.95) per share, and RUB 12.52 (USD 0.19) per GDR (5 receipts certify the rights to one share), excluding 2,166,313 treasury GDRs held by the Company.

On 6 March 2020, the Board of Directors recommended to pay, as the second interim dividends for 2019, RUB 2.8 billion (USD 43.1 million), or RUB 105.9 (USD 1.60) per share and RUB 21.18 (USD 0.32) per GDR (five receipts certify the rights to one share), excluding 2,135,313 treasury GDRs held by the Company.

### Dividends paid in 2014-2019

<table>
<thead>
<tr>
<th></th>
<th>first interim dividends</th>
<th>second interim dividends</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RUB bn</td>
<td>68.6</td>
<td>25.6</td>
</tr>
<tr>
<td>USD mn</td>
<td>108.9</td>
<td>54.1</td>
</tr>
<tr>
<td><strong>Per share</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RUB</td>
<td>105.9</td>
<td>0.95</td>
</tr>
<tr>
<td>USD</td>
<td>164.61</td>
<td>1.6</td>
</tr>
<tr>
<td><strong>Per GDR</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RUB</td>
<td>34.35</td>
<td>0.19</td>
</tr>
<tr>
<td>USD</td>
<td>54.98</td>
<td>0.46</td>
</tr>
</tbody>
</table>
INFORMATION FOR SHAREHOLDERS

Protection of shareholders’ rights

The Company prioritises the protection of shareholders’ interests, seeking to forge and maintain the relations of trust. In building its relations with the shareholders, the Company makes every effort to protect their rights and prevent any violation of these rights. The Company is engaged in a direct dialogue with the shareholders and investors and guided by the current legislation and best global practices. The main standards of external corporate conduct and ethics to be applied in the relations with shareholders and investors are outlined in the Company Code of Business Conduct and Ethics.

The Company strives to minimise the actual risks to the investors: it appropriately discloses the information on its activities and refrains from actions that may mislead the investors. The Company makes every effort to increase its shareholder value, prevent intercompany conflicts and ensure high quality of corporate governance.

The Company equally respects the rights of all shareholders, regardless of the number of shares or GDRs they hold. The Company guarantees to all its shareholders the protection of all the rights stipulated by the current legislation and the rights resulting from the Company’s obligations in relation to trading securities on the stock exchanges. The Company also offers assistance to the shareholders in line with the best global practices in corporate governance. In doing so, the Company constantly works towards making the exercise of these rights even easier and more accessible, more effective, and yet less costly.

Information policy

Though the Company’s investment appeal largely depends on its effectiveness and performance, corporate governance, especially the openness and the transparency of the Company’s activities, is also very important for making a positive investment decision.

To ensure a high level of openness that is consistent to the global best practice, the Company timely provides the investment community with all the information that may materially affect the value of the Company’s securities, in particular:
- Annual and quarterly reporting on the financial and operating performance;
- Information on all material events in the Company’s activities;
- Specialised information and analytical materials for investors.

Further, the Company ensures equal access to Company information for all representatives of the investment community and makes every effort to prevent separate groups of investors from gaining exclusive access to such information.

Any information that can have a material effect on the value of the Company’s shares is published at the official web site of LLC Rusagro’s Group of Companies, the RNS (LSE), the Moscow Stock Exchange, and Interfax news agency, in line with the statutory requirements on information disclosure. As soon as the quarterly and annual financial results are available, the Company holds conference calls to share the results and provide further explanation that is required to assess the financial standing of the Group.


To ensure unified understanding of the results and events, the Company holds regular meetings between its senior executives and key managers and the representatives of media and the investment community, and maintains contact through internet and telecommunications networks. Once a year, the Company arranges visits to the Group’s major facilities and holds workshops; these visits are timed to coincide with the Analyst and Investor Day. The calendar with dates of key news release and corporate events is available at the Company’s web site.

The Investors section - News and Events - Calendar on the Company’s website is available through the link https://www.rusagrogroup.ru/ru/investoram/novosti-i-sobytiya/kalendar/
RISK MANAGEMENT

Rusagro allocates considerable investment resources to risk identification, analysis, and assessment as part of business decision-making. The Company has been committed to observing the national and international standards in risk management: its going concern has been to monitor the risks and to update its risk management toolkit in order to maximise the Company’s value and reduce the risk impact severity.

Key risks

<table>
<thead>
<tr>
<th>Risk description</th>
<th>Risk mitigation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Industry risks</strong></td>
<td></td>
</tr>
<tr>
<td>Price declines for products</td>
<td>• Diversifying the Company’s product portfolio by extending the product range and developing retail brands;</td>
</tr>
<tr>
<td></td>
<td>• Developing the sales channels, signing contracts with major industrial partners and retail chains;</td>
</tr>
<tr>
<td></td>
<td>• Developing exports and entering new markets;</td>
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<tr>
<td></td>
<td>• Maintaining ample stocks of finished products intended for sale during seasonal price hikes;</td>
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<tr>
<td></td>
<td>• Continuous monitoring of the market situation to get a full and accurate picture of the trends and to ensure a reliable basis for projections on the market dynamics.</td>
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<tr>
<td></td>
<td>• Increased supply from the competitors;</td>
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<tr>
<td></td>
<td>• A decline in household purchasing power;</td>
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<tr>
<td></td>
<td>• Restrictions on product exports;</td>
</tr>
<tr>
<td></td>
<td>• Easing of the restrictions on product imports;</td>
</tr>
<tr>
<td></td>
<td>• A drop in global prices.</td>
</tr>
<tr>
<td><strong>Operational risks</strong></td>
<td></td>
</tr>
</tbody>
</table>

Revenue decrease due to a reduced yield caused by extreme weather.

Extreme weather, such as drought, frost, excessive moisture, strong winds, hail, damping-off, may lead to reduced yield, which affects the revenue of the Agriculture, Meat, Sugar, and Oil and Fats Businesses.

• Comprehensive approach to weather forecasting based on the data obtained from weather stations;
• Monitoring of the crops on a regular basis;
• Digitalisation of strategic planning and operational processes in the Agriculture Business;
• Automated generation of the optimum schedule for sugar beet digging, piling, and delivery, as well as the schedule for harvesting and delivery of grains and pulses;
• Automated control of the process execution quality;
• Development of the irrigation systems;
• Selection of the best hybrids and pedigree seeds for each climatic zone.
## Risk description

### Livestock and plant diseases

Climatic changes and evolution bring new dangerous diseases of the livestock and plants that can adversely affect the Company’s production results. The most hazardous diseases are sugar beet diseases, pests, highly dangerous virus and infectious diseases of pigs, such as ASF, porcine reproductive and respiratory syndrome, swine foot-and-mouth disease, and atypical pneumonia.

<table>
<thead>
<tr>
<th>Risk mitigation</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Monitoring the transport, goods and materials flow, their disinfection;</td>
</tr>
<tr>
<td>• Preventing physical contact of the pigs at farms with wild animals;</td>
</tr>
<tr>
<td>• Monitoring the health of pigs grown at the Company’s production facilities;</td>
</tr>
<tr>
<td>• Monitoring the ASF incidents in Russia;</td>
</tr>
<tr>
<td>• Pest control through the treatment of plants and seeds with insecticides and fungicides.</td>
</tr>
</tbody>
</table>

### Losses due to the appreciation of the Meat Business project in the Primorye Territory and its delayed launch

The risk of appreciation of the pig-breeding farm project in the Primorye Territory is associated with the remoteness of the construction area from industrial centres, absence of skilled engineering personnel and workers in the region, and also weather conditions. It can lead to a rise in prices and longer delivery of construction materials, cash deficiency due to untimely submission of supporting construction documents, additional costs for the protection from excessive precipitations and typhoon consequences.

<table>
<thead>
<tr>
<th>Risk mitigation</th>
</tr>
</thead>
<tbody>
<tr>
<td>• The Company scheduled and is currently implementing the measures to protect its lands against natural phenomena common for the Primorye Territory, including the construction of additional systems for surface water collection and drainage;</td>
</tr>
<tr>
<td>• The construction contract involved large-scale companies with own logistics network both in Russia and abroad, own engineering and operation personnel; this leads to increased projects but helps to mitigate the risk of longer construction period.</td>
</tr>
</tbody>
</table>

### Financial risks

#### Change of the governmental policy in subsidising the interest rates

The financial results and operating cash flow of the Company are subject to changes in the policy of governmental support for the agricultural industry. The interest rate risk of the Company arises if the governmental support is reduced, or the state refuses to subsidise the inerest rates for short-term and long term loans at all.

<table>
<thead>
<tr>
<th>Risk mitigation</th>
</tr>
</thead>
<tbody>
<tr>
<td>• The Company regularly assesses its exposure to the risk of interest rate fluctuation, using scenario analysis for quantitative risk assessment.</td>
</tr>
<tr>
<td>• Being proactive, the Company promotes the necessity of state support for further agricultural segment development in the country.</td>
</tr>
<tr>
<td>• The Company monitors any changes in the state subsidisation policy and responds to them by the respective adaptation of the Group strategy.</td>
</tr>
</tbody>
</table>

#### Decrease in real revenues due to rouble appreciation

The Company is subject to risks of unfavourable changes in foreign exchange rates associated with business activities abroad, as well as dependency of the finished product prices on global prices that are specified in foreign currencies. In particular, the strengthening rouble puts downward pressure on the profit since the revenues decrease faster than the cost of production.

To reduce the currency risks, the Company seeks to reduce its net currency position, with due account to the expected cash flows in foreign currencies.
CORPORATE SOCIAL RESPONSIBILITY

IN ITS ACTIVITIES, RUSAGRO STRIVES TO MEET THE INTERESTS OF THE COMMUNITY AND RECOGNISES ITS ACCOUNTABILITY TO THE STAKEHOLDERS. THE COMPANY INVESTS IN EMPLOYEE DEVELOPMENT, THE CREATION OF SAFE AND EQUAL WORKING CONDITIONS. RUSAGRO PROMOTES THE LOCAL AND REGIONAL DEVELOPMENT BY CREATING NEW JOB OPPORTUNITIES AND IMPLEMENTING CHARITABLE PROGRAMMES. IN ORDER TO FOSTER SUSTAINABLE DEVELOPMENT, THE COMPANY PRACTISES THE ENVIRONMENTAL SOUND PRODUCTION AND ADHERES TO HIGH PRODUCTION SAFETY STANDARDS.

105 Human Resources Management
112 Social Investments
113 Environmental Responsibility
120 Lean Production
120 Quality Management
121 External Corporate Relations and Ethics Standards
121 Prevention of Corruption
122 Procurement
HUMAN RESOURCES MANAGEMENT

Human capital development is one of the four strategic objectives for Rusagro. As at year-end 2019, the Company employs 19.5 thousand people in 11 regions of the Russian Federation. In 2019, Rusagro became the top three most attractive employers in the agricultural sector according to the international Randstad Award Research. The Company creates decent working conditions, provides competitive compensations and social guarantees, and maintains a particular focus on personal and professional development of its employees. Rusagro considers its employees as a key asset of inherent value and encourages them to fulfill their potential, improve their knowledge and skills, and participate in challenging innovative projects.

WORKFORCE STRUCTURE

In 2019, the Company’s average headcount increased by 29% year-on-year and totalled 19.7 thousand employees. Twenty eight percent of the employees work in the Oil and Fats Business, which demonstrated the highest headcount growth in 2019. As a result, of business expansion due to the rent of assets of Solnechnye Produkty, the employees number went up threefold and amounted to 5,590 employees. Thirty percent of the employees work in the Meat Business (+12% year-on-year as a consequence of production increase in the Tambov Region), 22% of the employees - in the Agriculture Business and 15% - in the Sugar Business.

Rusagro’s average headcount in 2015–2019, employees

<table>
<thead>
<tr>
<th>Year</th>
<th>Meat Business</th>
<th>Oil and Fats Business</th>
<th>Sugar Business</th>
<th>Dairy Products Business</th>
<th>Agriculture Business</th>
<th>Corporate Centre and Common Service Centre</th>
</tr>
</thead>
<tbody>
<tr>
<td>’15</td>
<td>10,449</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>’16</td>
<td>13,363</td>
<td>3,789</td>
<td>2,042</td>
<td>4,292</td>
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<tr>
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<td>4,186</td>
<td>1,969</td>
<td>4,787</td>
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<tr>
<td>’18</td>
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<td>5,300</td>
<td>2,025</td>
<td>4,433</td>
<td>3,149</td>
<td></td>
</tr>
<tr>
<td>’19</td>
<td>19,658</td>
<td>5,919</td>
<td>5,590</td>
<td>4,340</td>
<td>3,044</td>
<td></td>
</tr>
</tbody>
</table>

At end-2019, Rusagro employs 19.5 thousand people. The jobs are mainly in the Tambov Region (approximately 32%) and also in the Belgorod Region (28%). Another 16% of jobs are in the Saratov Region. According to the year-end results, the number of jobs in Tambov and Kursk Regions, as well as in Primorye Territory reduced on the back of downsizing trends and conservation of Primorskaya Soya. Increase in figures in Saratov Region is associated with the rent of assets of Solnechnye Produkty.

Jobs in Rusagro’s presence regions, as of 2019 year-end, %

- Tambov and Voronezh Regions: 32%
- Belgorod Region: 28%
- Saratov Region: 15%
- Sverdlovsk Region: 5%
- Primorye Territory: 5%
- Kursk Region: 4%
- Orel Region: 3%
- Samara Region: 3%
- Others: 4%

The majority of the Company’s employees have vocational secondary education (38%). A high percentage of employees have post-secondary education (33%). These major personnel categories are the core of the Company.

Rusagro’s structure of workforce by age in 2017–2019, %

- Below 25: 8%
- 26–35: 29%
- 36–55: 53%
- Over 56: 13%

Most of the Company’s employees (53%) are aged 36 to 55 years. The next largest category comprises employees aged 26 to 35 years (26%). In 2019, young specialists accounted for 8%, and older specialists - for 13%.

Rusagro’s workforce structure by education level in 2019, %

- Vocational secondary: 38%
- Post-secondary: 33%
- Complete secondary: 18%
- Initial secondary: 7%
- Basic general education: 4%
COMPETITIVE EMPLOYEE COMPENSATION

Rusagro’s incentives and compensation policy is aimed at maintaining a competitive salary level. During 2019, average monthly salary at producing facilities and operations management units of the Company showed an increase in the Meat Business by 5% and totalled RUB 43 thousand. Growth of the salaries is linked to the inflation and the market growth in relation to the level of remuneration. The highest average monthly salary was recorded in the Oil and Fats Business and amounted to RUB 50 thousand. There is a difference in the average salary across the businesses since the Company operates in different regions, and each business and region has different working conditions and other business-related features.

46 thousand RUB/month
average pay across Rusagro’s operational and production facilities

Average monthly salary in producing facilities and operations management units of Rusagro in 2015–2019, RUB thousands

WOMEN POSITION IN RUSAGRO

The proportion of women in the Company in 2019 reached 34% (6,595 people), which is higher than the average index across Russian production companies. The proportion of women in the Corporate Centre is 50% and in Oil and Fats Business is 41%.

The percentage of women among blue-collars is 30%, and among white-collars – 55%. The difference is explained by more difficult working conditions for blue-collar workers in comparison to white-collars. The share of women among the heads of functional units is 32%, while that among senior managers is 25%, which is higher than the average index across Russian production companies.

The differential in the rates of men’s and women’s pay is insignificant: women are paid less by 0.2% (in fixed part), there is no difference in the size of bonuses paid. Though, the number of women who received a bonus is by 6 p.p. more than men.

Percentage of women in Rusagro across position levels in 2019, %

Women share, %

Women share in top-management, %

Average pay across Rusagro’s operational and production facilities

<table>
<thead>
<tr>
<th>Business</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sugar Business</td>
<td>34</td>
<td>37</td>
<td>38</td>
<td>39</td>
<td>33</td>
</tr>
<tr>
<td>Oil and Fats Business</td>
<td>31</td>
<td>37</td>
<td>47</td>
<td>51</td>
<td>51</td>
</tr>
<tr>
<td>Agriculture Business</td>
<td>51</td>
<td>51</td>
<td>51</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>Meat Business</td>
<td>46</td>
<td>47</td>
<td>31</td>
<td>31</td>
<td>30</td>
</tr>
<tr>
<td>Dairy Products Business</td>
<td>34</td>
<td>37</td>
<td>37</td>
<td>39</td>
<td>41</td>
</tr>
<tr>
<td>Corporate Centre</td>
<td>50</td>
<td>48</td>
<td>48</td>
<td>46</td>
<td>33</td>
</tr>
</tbody>
</table>

Women share,

<table>
<thead>
<tr>
<th>Business</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sugar Business</td>
<td>36</td>
<td>41</td>
<td>24</td>
<td>29</td>
<td>25</td>
</tr>
<tr>
<td>Oil and Fats Business</td>
<td>32</td>
<td>35</td>
<td>35</td>
<td>31</td>
<td>31</td>
</tr>
<tr>
<td>Corporate Centre</td>
<td>35</td>
<td>32</td>
<td>35</td>
<td>32</td>
<td>32</td>
</tr>
</tbody>
</table>
CAREER GROWTH

All employees of the Company have opportunities for career growth through the developed career paths in major functional directions. The employees can also share their career aspirations, including those that involve a transfer to other businesses within Rusagro.

The Company strives to maintain a high level of internal hires, gradually increasing this level by internal pool of candidates. In 2019, the share of internal hires remained at the level of the previous year (61%) thanks to the effective and consistent efforts of the Company in improving the quality of human capital and providing real opportunities for the career and professional growth of the employees.

61%

share of internal hires in Rusagro in 2019

WORKING WITH YOUNG PEOPLE

The Company is interested in attracting and retaining young people who bring a new perspective on technologies and processes. At the same time, 80% of Rusagro’s production sites are located in rural areas experiencing a shortage of staff, especially in the Agriculture Business. Therefore, the Company makes consistent efforts in attracting young people.

In 2019, exchange programmes and dual education programmes continued to be implemented, and Career Days were held for the first time for the students of specialised secondary educational establishments from the Belgorod, Tambov, and Orel Regions. The project involved 16 educational institutions and 400 students were invited to the event.

Training and development

TRAINING AND DEVELOPMENT

HR-processes of Rusagro help each employee to continuously improve their own professional, managerial and communicative competencies. 100% of employees have an individual development plan, within which they plan their training events. All employees have access to 370 courses of the distance learning system (+22% year-on-year). In 2019, the number of face-to-face trainings increased almost fourfold to up to 2,607.

This is facilitated by the development of institutions of internal trainers and mentors. The number of internal trainers and mentors is increasing annually and in 2019 reached 419 (+30%) and 419 (23%) respectively. Their motivation is supported by a system of ratings and recognition. Over the past year, the Company’s trainers have developed more than 525 training programmes.

Employees training in 2018–2019

<table>
<thead>
<tr>
<th>Year</th>
<th>Courses Completed</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>10,314</td>
</tr>
<tr>
<td>2018</td>
<td>9,717</td>
</tr>
<tr>
<td>2017</td>
<td>5,214</td>
</tr>
</tbody>
</table>

[Man-courses completed]
In addition to competitive salaries, Rusagro offers its employees a comfortable and safe working environment and a generous benefits package that includes meals, employee shuttles, voluntary health insurance schemes, sanatorium-resort care, and good-quality workwear. Young professionals working in rural areas may qualify for home-buying assistance from the Company. Students doing internships and receiving on-the-job training are given rooms in the Company dormitories.

The occupational health and safety system is an integral element of the Company’s effective production management. The amenity spaces, equipment, and the processes of all the enterprises of the Group meet the highest occupational health and safety standards. To prevent employee ill-health, the Company introduced the Manage Your Health programme that includes vaccination, an office doctor, routine health checks, physical exercise and wellness promotion.

**RUSAGRO’S EMPLOYER BRAND**

Over three years, Rusagro’s Net Promoter Score index (NPS) reflecting the willingness of its employees to recommend the Company to others went up from 16 p.p. in 2017 to 30 p.p. 2019. Such an increase contributes a lot to the Company’s Employer Brand.

According to the international independent Randstad Award Research, Rusagro’s attractiveness among other outside employees increased by 5%, but Rusagro’s awareness remained unchanged.

To enhance the employer brand awareness and attractiveness in Rusagro’s regions, in 2020 the Company plans to promote advertising on social media, launch the “Brand Ambassador Project” within the Company and continue holding the Career Days in the regions.

**Employer brand, %**

![Employer brand graph]

Source: International Randstad Award Research and Rusagro’s Engagement Survey

In 2019, the Company continued its intensive efforts on the Rusagro’s Employer Brand project that helped to retain the key employees and attract the best and most talented ones from the outside. The Integrated Corporate Portal was launched in 2019 for generating a shared information space and transmitting the employer brand values among the Company’s employees. In addition to that Meat Business launched corporate TV.

**Integrated Corporate Portal**

On 1 January 2019, Rusagro launched the Integrated Corporate Portal that may be used by all the Company’s employees in all businesses.

The Portal is mainly intended for creating a common information space and uniting all businesses via a transparent communication system and shared knowledge database. The Company tried to make the Portal as interactive and user-friendly as possible. Such elements as comments, likes, forums, and feedback forms are actively used. The Portal serves for exchanging ideas and development of mutual aid. A special portal section is created to facilitate project work, which is of particular importance for distributed teams.

Over the year, the unique visits increased by 100%, and unique views – by 78%.
EMPLOYEE ENGAGEMENT

In June 2019, a regular engagement survey was conducted across all Rusagro’s businesses. A record number of employees (15,500 people) participated in it.

The general engagement across LLC Rusagro Group of Companies decreased by 3 p.p. from 2017, reaching 70%. Nevertheless, Rusagro’s indicators are 4% above the Russian average and 4% above the FMCG average.

Among the segments, the Sugar Business managed to increase its engagement indicators (73%), while the Meat Business’s numbers remained the same (78%). The Agriculture Business showed a substantial decline by 14 p.p. down to 57%. The engagement at the Oil and Fats Business’s plants decreased by 3 p.p. and amounted to 71%.

A decline in engagement results in the Oil and Fats and Agriculture Segments was due to changes observed over the past year and a half in those two businesses. Thus, the Oil and Fats Business are undergoing a transformation due to the expansion of capacities under control. During that period, the Agriculture Business has seen significant changes to the remuneration system along with considerable process automation. Both businesses have also shown changes in organisational structures.

Regarding the positive survey results, the top management engagement grew from 60 to 75%, and the involvement of young employees (aged under 25) increased from 65 to 71%.

![Engagement in Rusagro in 2016–2019, %](image-url)
CORPORATE CULTURE

A single corporate culture that is based on the Company values shared by all of the employees plays a key role in ensuring Rusagro’s effective operation. To support its corporate culture, Rusagro annually holds multiple teambuilding events.

In 2019, the Company organised a traditional event, Rusagro’s Fair Games, as a series of sports and family values festivals. Seven cities, six festivals, over 6,000 participants. The festivals were attended by both adults and children, for the latter a special interesting programme was prepared, including entertainers and trampolines, chemical experiments and drones launches, exciting lectures and games, and many other entertainments. All day long there were competitions and performances by artists on the festival’s stage; there was no chance for kids and adults to get bored. One km and three km charity races “Run for the sake of good” became the key event of all “2019 Rusagro Fair games” festivals. Children’s runs were also accounted, as young sportsmen took part very actively and whole-heartedly. This year the adult sportsmen ran a total of 597 km, and children - 472 km. Therefore, the overall race result was 1,069 km, up 398 km year-on-year. Rusagro will donate to charity 300 RUB per each kilometre run.

Rusagro’s Week Of Values

Rusagro held the Week of Values from 18 to 25 November. In celebration of that event, Rusagro’s employees remembered all the five values and checked how well they are prepared to apply them in real life situations. To that end, an interactive quest with interesting challenges was created with gifts for the employees for passing them. 3,480 participants took part in the quest based on five real stories of Company’s employees. Also under the Week of Values, five values-based videos were made, with the total number of views of over 6,000. Master classes with Company’s managers who encouraged the emergence of more than 300 ambassadors of values in Rusagro became an important basis for the Week of Values.

According to the awareness survey, more than 88% employees are familiar with Rusagro’s corporate values and more than 89% apply them in their work. This is higher than in 2017 (61%) by 28%.

Children summer camp visit

From 28 January to 15 March 2019, the children of Rusagro’s employees first participated in the “Tomorrow People’s Skills” contest. 30 winners went to the Black sea coast in summer for participating in the fascinating programme “Tomorrow People’s Skills” in the famous Children Summer Camp Artek. The contest comprised two stages – during the 1st round the children were tested, and in the 2nd round the participants had to come up with projects aimed to promote and develop one of the Tomorrow’s Skills. The second round was evaluated by the external committee of experts. More than 180 children took part in the contest.
AUTOMATION

In 2019, Rusagro Group continued its efforts to introduce one of the most advanced and high-performance systems in the human resources management – SAP Success Factors (SF).

Implementing success factors

This decision offers a wide range of advantages.

Through the implementation of the SAP Success Factors, all stages of the employees’ “life” in the Company will be recorded and controlled in one system, having an intuitive interface and high capacity.

The project was started up on 1 February and has an 18-month horizon. In 2019, the employee recruitment and onboarding services, efficiency and skills assessment processes, career planning and continuity management processes were introduced. In 2019, SAP SF system was put in place in the main holding, Agriculture Business, and Oil and Fats Business. In February 2020, the system was introduced in the Meat and Sugar Businesses. Startup in Dairy Products Business and at the Shared HR Services Centre is planned for March 2020.

The objectives of the Rusagro HR digital transformation

- Attract and train transformational leaders
- Provide all employees with effective development tools
- Provide managers and teams with quality information needed to make decisions

Simplify and Upgrade
- Reducing the complexity of HR processes, upgrading the technology platform, the highest level of security

Real Time Analytics
- Making HR decisions based on transparent and relevant information, as well as forecasting and planning HR strategy

Operational efficiency
- Reducing the number of manual and administrative operations, freeing up time to support business goals

Employee user experience
- Providing each employee with modern management tools for learning, development, career, and teamwork
SOCIAL INVESTMENT

Rusagro Group is a strategic investor with long-term interests, seeking for social development and raising the living standards in the regions of its operation. Rusagro’s Philanthropy Programme was approved by the Board of Directors in December 2015. It is aimed at assisting schools, pre-school institutions, and district administrations with the construction of playgrounds. In 2018, a new forth focus area – the Sprouts of the Future educational initiative – was added. Its objective is to give equal opportunities to children from various socioeconomic backgrounds, to support their personal development and Soft Skills. Most of the targeted assistance goes to the regions where Rusagro’s employees live and work. The programme’s budget is calculated as 0.5% of the payroll budget for the producing facilities in Rusagro’s presence regions.

«Rusagro’s Philanthropy Programme has long-term objectives. Focusing on the younger generation - students of village schools and child care centres, we invest into the future of the Company’s operation regions and help those who actually need it»

MAXIM BASOV
the Chief Executive Office of Rusagro Group of Companies.

IMPLEMENTATION OF THE PHILANTHROPY PROGRAMME

In 2019, the Philanthropy Programme financing increased by 3% to RUB 34.1 million. The educational initiative also covered the Kursk and Orel Regions.

The number of educational institutions embraced by the Programme increased over 2019. In 2018, assistance was provided to 75 educational institutions, while in 2019, the Programme included 87 schools and child care centres. Under the Rusagro’s Philanthropy Programme, two sports and playgrounds were opened in the Belgorod and Kursk Regions. By the year-end, the Company assisted the schools in the organisation of extracurricular programmes in robotics and 3D-modelling, purchased educational and laboratory equipment for chemistry and biology classes, updated the extracurricular programmes in arts, sports and civic and national education, provided schools with modern computers, multimedia equipment, and sensory rooms. The Company provided child care centres with play equipment and sensory rooms, developed the extracurricular programmes in arts and sports.

Rusagro’s Philanthropy Programme budget in 2015-2019 broken down by regions, RUB million

<table>
<thead>
<tr>
<th>Year</th>
<th>Tambov Region</th>
<th>Belgorod Region</th>
<th>Orel Region</th>
<th>Kursk Region</th>
<th>Samara Region</th>
<th>Primorye Territory</th>
</tr>
</thead>
<tbody>
<tr>
<td>'19</td>
<td>34.1</td>
<td></td>
<td>15.5</td>
<td>11.3</td>
<td>3.2</td>
<td>2.3</td>
</tr>
<tr>
<td>'18</td>
<td>33.0</td>
<td>13.1</td>
<td></td>
<td>11.9</td>
<td>1.7</td>
<td>8.2</td>
</tr>
<tr>
<td>'17</td>
<td>17.5</td>
<td>8.6</td>
<td>6.7</td>
<td>0.8</td>
<td>0.4</td>
<td>0.5</td>
</tr>
<tr>
<td>'16</td>
<td>7.8</td>
<td>3.6</td>
<td>3.9</td>
<td>0.4</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Number of educational institutions included in Rusagro’s Philanthropy Programme in 2016-2018

<table>
<thead>
<tr>
<th>Year</th>
<th>Schools</th>
<th>Child care centres</th>
</tr>
</thead>
<tbody>
<tr>
<td>'19</td>
<td>87</td>
<td>58</td>
</tr>
<tr>
<td>'18</td>
<td>75</td>
<td>49</td>
</tr>
<tr>
<td>'17</td>
<td>42</td>
<td>26</td>
</tr>
<tr>
<td>'16</td>
<td>29</td>
<td>19</td>
</tr>
</tbody>
</table>

In 2018, in addition to three traditional ones (school and children care centres support and construction of sports and playgrounds), the Rusagro’s Philanthropy Programme included one more assistance area – the Sprouts of the Future educational initiative. It is an early career guidance system for school students involving up-to-date methods. The project aimed at giving equal opportunities to children from various socioeconomic backgrounds. The projects will facilitate a positive social environment for the children to engage in project activities, development and experiments, and to acquire universal professional skills. Providing career guidance at such an early stage will enable the Company to build an effective long-term talent pipelining strategy.
ENVIRONMENTAL RESPONSIBILITY

In its business, Rusagro maintains a high profile on observing the applicable environmental legislation, ensuring rational use of natural resources, assimilating environmentally-friendly technologies, as well as ensuring biological and veterinary security of its livestock division. The Company adheres to the practice of reuse of raw materials and mitigates the negative environmental impact of the production activities of five business areas.

Environmental protection

Rusagro’s environmental management system has been developed in compliance with Russian environmental legislation. In addition to ensuring full compliance with all the requirements of the current environmental and health protection legislation, the Company seeks to minimise the negative impact on people, natural resources and the environment.

The principles of achieving a sustainable balance between production activities and environmental protection form the mainstay of the Company’s business, enabling it to limit financial and reputational risks, identify the areas of concern at early stages, and make the best decisions. The Company is open for dialogue with the community and other stakeholders on environmental protection and rational use of natural resources.

Rusagro seeks to contribute to environmental conservation by implementing the following measures:

- Reducing the environmental footprint in all business segments;
- Facilitating rational use of natural resources – both those included in production and those found in the Company’s presence regions.
- Implementation of the best available technologies.

In 2019, due to the growing production volumes, the Company’s rates for greenhouse gas (GHG) (+59%) and waste water (+6%) emissions went up, so did the volumes of waste (+6%), water consumption (+46%), electricity (+30%), and heat (+20%). In these conditions, the Meat Business and Sugar Business were able to reduce the volume of industrial and waste water discharges by 10 and 3%, respectively, the Sugar Business – to reduce GHG emissions by 49%, and pollutant emissions – by 44%.
WATER CONSUMPTION AND WATER DISCHARGES

The volumes of water consumption and discharges of industrial water are directly related to the technological features of the production process of each Business, production capacities and quantity of output. According to the results of 2019, 50% of water consumed by Rusagro fell on the Sugar Business, 22% – on the Meat Business, 16% – on the Agriculture Business, and 12% – on Oil and Fats Business.

Results of 2019

In 2019, Rusagro increased its water consumption by 46% – up to 21.8 million cubic meters. The rise (+3.3 million cubic meters) was mainly due to the launch of the irrigation system in the Agriculture Business and the expansion of cultivated land by 5%. Other businesses also increased this figure: in the Sugar Business – by 11% due to an increase in sugar beet processing volumes by 12%, in the Meat Business – by 42% due to an increase in livestock by 14%, the expansion of the meat processing plant and commissioning of new production facilities sites, in Oil and Fats Business – a twofold increase due to the growth of capacities.

Rusagro’s consumption of water, million cubic meters

<table>
<thead>
<tr>
<th>Year</th>
<th>Water Consumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>17.5</td>
</tr>
<tr>
<td>2017</td>
<td>16.7</td>
</tr>
<tr>
<td>2018</td>
<td>14.9</td>
</tr>
<tr>
<td>2019</td>
<td>21.8 (+46%)</td>
</tr>
</tbody>
</table>

The Sugar Business takes the following water efficiency measures:

- replacement of river water with recycling water by increasing the capacity of the closed-loop recycling water supply system;
- reuse of river water for cooling equipment or for washing;
- automation of river water consumption processes, which ensures water consumption exactly as needed;
- installation of water metering units for accurate measurement, identification of deviations, development and implementation of measures to reduce losses and verify the achieved positive effects.

The Oil and Fats Business takes the following water efficiency measures:

- adoption of water recycling systems;
- repairs of leaky water supply pipelines, valves and process equipment;
- maximisation of the condensate return to the boiler room for reuse of softened water;
- control of inappropriate use of water;
- monitoring of water consumption by production units.

The Meat Business takes the following water efficiency measures:

- installing the well dispatching system, which allows on-line monitoring of water supply from each well to the plant, timely detection of water leaks, and repair of leaky pipes;
- transition from the reactive maintenance of equipment to scheduled preventive repair and maintenance.

The Agriculture Business takes the following water efficiency measures:

- assessment of the needs of irrigated fields for additional moisture;
- water savings in washing equipment and household use.
In 2019, GHG emissions by the Company’s production assets increased by 59% and amounted to 5.2 thousand tonnes.

The bulk of generated GHG emissions (73%) is a by-product of livestock living. During the reporting period, the Meat Business increased emissions by three times, which is associated with the growth of the livestock population and a change in the methodology for developing the Maximum Allowable Emission Targets, which in 2019 was used to calculate the targets for production facilities in the Tambov Region. In new projects, greenhouse gases accounted for 64% of the total emissions, as against 28% for projects delivered by to the old methodology.

To manage GHG emissions:

- **the Meat Business** is exploring the possibilities of using biodegraders – biological substances that mitigate the livestock GHG emissions. To reduce atmospheric emissions, it is planned to modify the ventilation systems and to use the manure decomposers.
- **the Agricultural Business** is exploring the possibility of switching vehicles from gasoline to gas;
- **the Sugar Business** implements projects aimed at heat and electricity saving.

Rusagro’s Industrial Environmental Monitoring Programme involves regular monitoring of pollutant emission sources and necessary measures taken to reduce the environmental impact. The enterprises are equipped with wastewater treatment plants that meet the requirements of the applicable environmental laws, and in case the production works are subject to upgrade and modernisation, new air pollution control equipment and dust & gas catchers are installed.

**Results of 2019**

In 2019, GHG emissions by the Company’s production assets increased by 59% and amounted to 5.2 thousand tonnes. The bulk of generated GHG emissions (73%) is a by-product of livestock living. During the reporting period, the Meat Business increased emissions by three times, which is associated with the growth of the livestock population and a change in the methodology for developing the Maximum Allowable Emission Targets, which in 2019 was used to calculate the targets for production facilities in the Tambov Region. In new projects, greenhouse gases accounted for 64% of the total emissions, as against 28% for projects delivered by to the old methodology.

**The key emissions indicators of Rusagro in 2016-2019**

The Agriculture Business accounted for another 16% of all GHG emissions of the Company, resulted from burning all types of gaseous, liquid and solid fuels in boiler units and turbines, and the Sugar Business accounted for 11% of GHG.

To manage GHG emissions:

- **the Meat Business** is exploring the possibilities of using biodegraders – biological substances that mitigate the livestock GHG emissions. To reduce atmospheric emissions, it is planned to modify the ventilation systems and to use the manure decomposers.
- **the Agricultural Business** is exploring the possibility of switching vehicles from gasoline to gas;
- **the Sugar Business** implements projects aimed at heat and electricity saving.
WASTE DISPOSAL

The bulk of Rusagro waste (82%) is generated during the life of animals and are qualified as low-hazard liquid waste. Another 10% of all the Company’s waste include lime and dirt from the filtration fields generated during the processing of sugar beets into sugar and are qualified as virtually non-hazardous waste. Only 0.002% of the waste belongs to the first, second or third class, which constitute an environmental hazard. They are recycled as mandated by the relevant laws.

Results of 2019

In 2019, the volumes of solid and liquid waste across all enterprises of the Company amounted to 4.6 million tonnes, which is 6% above the level of 2018. The rise was spurred by the increased volume of liquid effluents, which was partially offset by a decrease in the volume of solid waste. Liquid effluents volumes consisted of manure, which increased from 3.4 to 3.7 million tonnes (+9%) as a result of larger population of livestock in the Meat Business. Solid waste went down by 3% and amounted to 843 thousand tonnes; 80% of such waste were generated by the Sugar Business as the result of sugar beet processing. In 2019, despite the growth in the volume of processed beets, waste generated by this Business decreased by 12% to 677 thousand tonnes, including 462 thousand tonnes of lime scum and dirt from filtration beds.

Almost all of the Company’s wastes belong to Class 4 (low hazard) and Class 5 (almost non-hazardous) of environmental impact. Class 1, 2, and 3 waste totalled 113 tonnes, down 25% year-on-year.

| Total weight of Rusagro’s waste by class in 2016-2019, tonnes |
|-----------------|-----------------|-----------------|-----------------|-----------------|
| Class 1         | 8               | 6               | 3               | 3               |
| Class 2         | 35              | 41              | 44              | 21              |
| Class 3         | 240             | 241             | 104             | 89              |
| Class 4         | 3,118,329       | 3,630,004       | 3,677,085       | 3,973,085       |
| Class 5         | 550,746         | 477,142         | 633,817         | 607,511         |
| Total           | 3,669,358       | 4,107,435       | 4,311,054       | 4,580,709       |
WASTE MANAGEMENT

The Meat Business employs the manure disposal system. Manure generated in the process of livestock living is accumulated in the baths of the production buildings, where it is mixed with water and then drained through the sewage system into the lagoons designed for the accumulation of liquid effluents and their neutralisation to Class 4. Then, by agreement with the owners of the fields, manure is applied deep into the soil of the fields to a depth of at least 20 cm. The closed method of manure application, i.e. the injection method, reduces the ammonia concentration in the air. In the winter, the introduction of manure is prohibited. Manure serves as a fertiliser and improves the soil quality, but it also brings negative environmental impact risks. In order to avoid them, in the winter period, the Company prepares equipment for the application of manure, and for repair and replacement, develops and approves application schedules and rates, continuously controls the heads of the transport management department and the environmental engineers adhere to the application procedure, has the fields plowed around the perimeter to prevent leaks of manure beyond the field and has the field timely disked in case of a rupture of the hose system and the overflow of manure to the surface.

The largest share of Sugar Business waste (68%) consists of lime scum and dirt from filtration beds, which are Class 5 wastes. The filtration beds are regularly cleaned, and the dirt is ploughed into fields not used in crop farming. Class 4 wastes, amounting to 215 thousand tonnes in the reporting period, are presented by wet pressed pulp from the pit. As a result of the fermentation in the pit, bacteria and microorganisms are formed there and then go into the soil. With pulp dryers installed at all plants, the Company can give up this technology and produce dry pulp pellets. Wastes of Sugar Business have a minimal environmental impact, as they are either reused at the Company’s plant or used to recover valuable components with their further utilisation. The lime is a common soil amendment, as its nutrient content is close to that of the manure, so the lime is used for chalking or sweetening of sour lands. The amount of dirt from filtration beds is minimised by enhancing the flume water treatment quality through the withdrawal of dry sediments. For this, the sediments from a circular settling tank are mechanically dewatered and the resultant substance is delivered to the filtration beds. The pulp is sold to farm enterprises for livestock feeding and used as a soil amendment.

### Waste disposal, burial and processing methods adopted by Rusagro in 2016-2019, weight in thousand tonnes

<table>
<thead>
<tr>
<th>Method</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Re-use</td>
<td>285</td>
<td>400</td>
<td>265</td>
<td>270</td>
</tr>
<tr>
<td>Recovery of valuable components, including energy generation</td>
<td>276</td>
<td>361</td>
<td>294</td>
<td>218</td>
</tr>
<tr>
<td>Landfilling</td>
<td>6</td>
<td>17</td>
<td>19</td>
<td>30</td>
</tr>
<tr>
<td>Other methods</td>
<td>3,091</td>
<td>3,314</td>
<td>3,723</td>
<td>4,038</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3,658</strong></td>
<td><strong>4,091</strong></td>
<td><strong>4,300</strong></td>
<td><strong>4,557</strong></td>
</tr>
</tbody>
</table>
ENERGY CONSUMPTION

In 2019, Rusagro increased energy consumption due to the growth of production capacities. So, electricity consumption grew by 30% to 499 million kWh, heat consumption – by 19% to 14 million GJ. The Sugar Business consumes the largest amount of energy, accounting for 43% of all electricity and 75% of heat consumed by the Company. The Meat Business also consumes a significant amount of energy of the total consumption of the Company (28 of electricity 9% of heat).

Rusagro’s energy consumption in 2016-2019

In order to reduce energy consumption, the Company installs energy-saving equipment at all enterprises and propagates the use of LED lighting. In addition, automated and remote lighting control systems are introduced, including systems with infrared motion and presence detection sensors.

To cut down electricity consumption in the Sugar Business, the following activities are undertaken:
- revamping the process equipment;
- introducing energy-efficiency measures;
- unstalling variable speed drives;
- installing LED-based lighting;
- installing filter-compensating units;
- process automation;
- replacing the energy-intensive equipment;
- recovering heat from continuous blowdown of flashed vapour and condensate, heat insulation of equipment and networks;
- installing an automated electric power metering system to control energy consumption in particular areas.

The energy-conscious measures taken by the Meat Business comprise the transition to LED-based lighting and light regime control, as well as modernisation of microclimate systems in pig farms.

LAND USE

The Agriculture Business implements the following measures to prevent soil degradation: crop rotation and soil deoxidisation by placing lime into soils of the Central Federal District territory and dolomite powder into soils of the Primorye Territory. The Company adheres to the principles of rational use of the mineral fertiliser complex - the application rates of fertilisers are adapted to the specific content of nutrients in a particular field.
BIOSECURITY AND VETERINARY SAFETY

Rusagro adheres to the latest standards on growing quality livestock and reducing the risk of disease. The Company’s pig-breeding farms are fitted with modern high-tech equipment and comply with the top biosecurity status: Compartment IV (protection level of a pig-breeding plant). To ensure the high biosecurity level, the Meat Business relies on the following principles:

1. **Physical separation** – the land, where the pig farms controlled by Rusagro are located. Within a 10-kilometre radius from its farms, there are no other livestock farms or household animal breeding enterprises. The distance between the farms is one to three kilometres, which allows preventing the spread of infection.

2. **AIAO (All-in / all-out) production** – animals of different generations and different production functions are kept separately to prevent the spread of diseases.

3. **Restricted access** – access to the areas inside the pig farms is stringently controlled and restricted. Each production facility is equipped with showers: every visitor is required to shower before entering and exiting, and also to leave all personal belongings outside and use specialised clothing and footwear. The vehicles can enter the territory of the pig farms only after they have been washed and disinfected. The incoming and outcoming employees, visitors, and vehicles must be registered.

4. **Feed quality control** – all feed ingredients are subject to constant laboratory control, which includes the assessment of quality and purity, and monitoring for pathogenic elements, infections, and toxic substances. All feed is heat-treated in order to prevent the spread of disease through the feed.

5. **Strict sanitary procedures** – the production areas at the farms are regularly cleaned and disinfected. The Group uses the AIAO (All-in / all-out) system, which implies that any production area may only be occupied by animals of the same generation. When the growing stage is completed, the area is thoroughly cleaned and disinfected. All technological vehicles get access to the production sites after being washed with foam detergents, disinfection, and heat treatment, involving a specially equipped drying machine. Vehicles are permitted for washing by quality inspectors and a veterinary laboratory, which performs bacteriological examinations after disinfection; quality inspectors and the veterinary laboratory exercise control over all stages.

6. **Vaccination** – the animals are regularly vaccinated to prevent all known diseases.

7. **Disease monitoring** – The Company’s veterinarians constantly monitor the data on the spread of any disease and follow the latest scientific achievements in biosecurity and veterinary safety. Rusagro makes every effort to rapidly respond to any outbreaks of disease in the country by immediately interrupting feed purchases and supplies of animals to the affected regions.
LEAN PRODUCTION

Rusagro has consistently implemented global best practices aimed at increasing production efficiency in all of its businesses. In particular, the Everest world-class production system is being successfully implemented in the Sugar Business; the Agriculture Business has put in place the SS (Kaizen) continuous improvement system; the Meat Business has carried out the Lean Production project, and the Oil and Fats Business is using its own production system based on the WCM (World Class Manufacturing) methodology.

Essentially, all these programmes are about continuous efforts aimed at cost optimisation using the approaches that require constantly working toward eliminating all losses, engaging every employee in the optimisation process, and ensuring maximal customer orientation. The constant improvement system of the Agriculture segment is based on four key elements:

- 5S methodology;
- Improvement management system (rewarding the employees for filing proposals for improvement);
- Value stream mapping (identifying and eliminating losses in the processes);
- Overall maintenance of equipment.

Since late 2016, the Meat Business has implemented the Lean Production project. The project is aimed at increasing overall equipment and operational efficiency, as well as reducing production costs.

The World Class Production programme that is being implemented in the Oil and Fats segment covers ten key areas: occupational health and safety, finance, targeted improvements, autonomous maintenance, professional maintenance, quality, logistics and client service, equipment control, personnel development, environmental protection and energy.

In 2014, the Sugar Business introduced a new Your Idea Works programme aimed at stimulating the generation of ideas on improvement. The programme primarily targets the employees who have a profound knowledge of their jobs and see what can be changed and improved and at what stage. Most of the proposed ideas are related to technology modernisation or rational use of available technology and resources. Under the programme, employees will be eligible for remuneration after their idea has been successfully implemented. The amount of remuneration depends on the annual economic effect achieved by implementing the idea.

QUALITY MANAGEMENT

The key priority of Rusagro is to produce competitive, high-quality products that comply with the requirements of the legislation and meet the expectations of the customers. The Company recognizes the importance of safe high-quality food products for the nation’s health and controls every stage of production in all of its business segments, including control of incoming materials, production control, control of finished products, and control of vehicles used for the transportation of the products. The state-of-the-art production equipment ensures the quality of the manufactured products and their compliance with all relevant requirements on sanitary and hygienic practices.

The Group’s enterprises are certified as compliant with Russian and international standards, regulations, and safety principles applied to the production and supply of products. The enterprises have introduced the GOST ISO 9001–2011 quality management system and the ISO 22000:2005 international standard for food safety management. HACCP certification implies that the required safety level should be ensured during food production, storage, transportation, and preparation.

CJSC Samaraagroprompererabotka was the second sunflower seed processing facility in Russia to be certified under GMP + B2 good manufacturing practices standard. The Agriculture Business operates in compliance with 015/2011 Technical Regulation on Grain Safety of the Customs Union.

The Company focuses on increasing customer satisfaction and uses the information obtained in the process of handling complaints to improve its products. The Group’s enterprises maintain extended complaints statistics that can be filtered by SKUs, shipments, and customers. Every incoming complaint is compared to similar cases and the customer’s complaints history is analysed, which makes it possible to reduce the complaint handling time. As soon as the root causes of the shortcoming are identified, the Company makes every effort to address them as quickly as possible and provide feedback. To ensure personnel engagement, a system of remuneration based on achieving specific KPIs was introduced.
EXTERNAL CORPORATE RELATIONS AND ETHICS STANDARDS

The Company’s relations with the government agencies and local authorities are based on responsibility, trustworthiness, partnership, and mutual trust, as well as on respect for, and consistency with, the obligations.

The underlying principles of the Company’s relations with its business partners (customers, suppliers, contractors, and consultants) are long-term cooperation, mutual benefits, respect, trust, honesty, and fairness. The Company does business only with reliable partners who are engaged in legal activities and observes the following basic rules:

1. Being a public company, Rusagro primarily selects its suppliers on a competitive basis;

2. The Company fulfills the contractual obligations to its business partners and expects them to do the same;

3. The Company settles any dispute that may arise in the process of its business activity by legal means and negotiations aimed at finding a mutually acceptable solution;

4. The Company always takes into account the requirements of the legislation of the countries it does business with.

The Company builds its relations with the competitors on mutual trust; it welcomes and encourages mutually beneficial cooperation. The Company regards any manifestation of unfair competition or abuse of market power as completely unacceptable. The Company fully complies with the competition laws of the countries where it operates.

PREVENTING CORRUPTION

As prescribed by the Code of Business Conduct and Ethics, all the Company’s employees observe the current anti-corruption and anti-money laundering legislation. The employees may not make, promise or receive illegal payments in cash, in kind or in any other form. The Company rules also prohibit the employees to offer, receive, or authorise offering of valuable gifts to public or private customers, business partners, their representatives or affiliated parties with an aim to obtain undue commercial advantages.

Any contact with government officials and other persons referred to in the UK Bribery Act and the US Foreign Corrupt Practices should strictly comply with the Company’s anti-corruption regulations and the current legislation.

As part of its anti-corruption efforts, the Company implements the following principles:

• Do business only with reliable business partners (customers, suppliers, contractors, and consultants) engaged in legal activities and not involved in corruption, and make every effort, to the extent permitted by the applicable law, to inform them thereof, and to examine their business practices;

• Make every possible effort to prevent bribery in the name of the Company by developing and introducing a system of adequate procedures;

• Make every effort, to the extent permitted by the current legislation, to obtain the information verifying the appropriate use of funds that the Company allocated for charity and sponsorship;

• Cooperate with the authorised agencies, partners and customers on preventing corruption, on the principle of reciprocity.

All the principles and restrictions set forth by the Code equally apply to agents, consultants, and other third parties acting on behalf of the Company.
Procurement efficiency is of key importance to Rusagro since this process defines the production cost and quality of the products, and ultimately the profit and competitiveness of the Company in the market.

The Company’s procurement is managed through a SAP-based system that contains actual information on the procurement process and generates reports on specific aspects for a selected period with various levels of detail. The suppliers are selected on a competitive basis — through tenders.

The Company has a unified Tender Regulation that defines the basic requirements for the tender procedure. The purpose of the Regulation is to stick to the principle of competitive procurement, ensuring the transparency of the logistics process and reducing supply costs.

The Regulation applies to all procurement areas for LLC Rusagro Group of Companies, as well as its business units. The tendering process all purchases implies electronic bidding on an electronic trading platform in order to ensure the even-handedness of bidding. Tendering outside electronic trading platforms is allowed only if tender funds are below the established limits.

Today, the bulk of purchases in monetary terms (about 90%) is done on the electronic trading platforms, which saves time and efforts, ensures the transparency of the procurement process and impartiality in the selection of contractors, thus promoting the fair competition.

In order to implement the procedure for the effective selection of the most preferred supplier, the final decision shall be made by the Tender Committee; the membership of the Committee depends on the subject and funds of the tender.

Rusagro’s procurement principles:

• Choosing the suppliers, contractors, performers who proposed the optimal quality, price, terms and conditions for the implementation of supply, contract and service agreements.
• Creating the equal competitive conditions for all participants.
• Reducing the risk of transactions with defaulted partners.
CONTACT INFORMATION

Full corporate name
Public Company Limited by Shares ROS AGRO PLC

Abbreviated name
ROS AGRO PLC

Full corporate name in Russian
РОС АГРО ПЛС

Legal address
ROS AGRO PLC
25 Aphrodite Street, 3rd floor, Office 300, CY-1060 Nicosia, Cyprus

Rusagro Group of Companies LLC
Studenetskaya Naberezhnaya street 20V., office 303, Tambov,
Tambov Region, 392000 Russia

Contact for shareholders and investors
Svetlana Kuznetsova
Tel.: +7 495 363 16 61
E-mail: ir@rusagrogroup.ru

Independent auditors in Russia
PricewaterhouseCoopers Audit
10, Butyrsky Val,
Moscow, Russia, 125047

Independent auditors in Russian Federation
AO PricewaterhouseCoopers Audit
City House, 6 Karaiskakis Street,
CY–3032 Limassol,
Cyprus

Depository
The Bank of New York Mellon
One Wall Street, New York, New York 10286,
United States of America

Company website
Russian: www.rusagrogroup.ru
English: www.rusagrogroup.ru/en
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**ROS AGRO PLC**

International Financial Reporting Standards

Consolidated Financial Statements and
Independent Auditor’s Report

31 December 2019
The Board of Directors presents its report together with the audited consolidated financial statements of ROS AGRO PLC (the “Company”) and its subsidiaries (collectively the “Group”) for the year ended 31 December 2019. The Group’s consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union (“EU”) and the requirements of the Cyprus Companies Law, Cap. 113.

Principal activities

The principal activities of the Group are the agricultural production (cultivation of sugar beet, grain and other agricultural crops), cultivation of pigs, processing of raw sugar and production of sugar from sugar beet, vegetable oil production and processing.

Review of development, position and performance of the Group’s business

In 2019 revenue increased by RR 55,194,713 thousand or 67%. All segments demonstrated an increase in revenue. The major contributor to the sales increase was the Oil and Fat segment where sales increased by RR 36,089,274 thousand or 137% comparing to the previous year. Sales in the Oil and Fat segment increased as a result of tolling scheme with Solnechnye producty in first half 2019 and rent of its capacities in second half 2019: increase in sales volumes of bottled oil, bulk oil and industrial fats. Revenue in the Agricultural segment rose by 24% as the result of growth in sales volumes of main crops and higher sales prices of wheat, barley and corn. The increase in sales in the Sugar segment by 30% is a result of higher volumes of sugar sold. The increase in the Meat segment sales by 16% thanks to an increase in sales price and sales volume of processed pork as a result of acquired CJSC KapitalAgro and expansion of current capacities of Tambov Bacon.

In 2019 Adjusted EBITDA increased by RR 3,865,472 thousand or 24% with positive dynamics in all segments except for the Sugar and Meat segments, which demonstrated a drop by RR 898,973 thousand or 18% and 2,075,763 thousand or 30%, respectively. The Agricultural segment demonstrated an increase by RR 1,141,303 thousand thanks to higher gross profit and lower distribution and selling expenses. The increase in the Oil and Fat segment amounted to RR 786,013 thousand as a result of an increase in gross profit compensated by growth of distribution and selling expenses.

In 2019 the Group investments in property, plant and equipment and inventories intended for construction amounted to RR 16,798,713 thousand on a cash basis. Investments of RR 10,850,857 thousand were made in the Meat segment and were related to pig farms construction in Tambov region and Primorski Krai. The Sugar segment invested RR 3,407,842 thousand in modernization of the sugar plants. The Agricultural segment invested RR 2,021,138 thousand in acquisition of new agricultural machinery and equipment.

Changes in the Group’s structure

On 25 February 2019 the Group obtained 100.00% of ownership interest in the newly incorporated company Ros Agro China Limited with the registered office located in Hong Kong.

On 30 April 2019 the Group closed the sale of 100% share of LLC Kolyshleisky elevator located in Penza region at sale price of RR 478,710 thousand.

On 20 August 2019 the Group acquired 22.5% of ownership interest in LLC GK Agro-Belogorie, one of the largest pork producers in Russia and a large landholder in Belgorod region. The Group’s intention is to expand cooperation between the companies and benefit from the synergy.

On 26 February 2019 the Group increased its share in the share capital of OJSC Pugachevsky elevator at 84.95% (2018: 84.17%).

On 10 October 2019 CJSC KapitalAgro and its holding company LLC Kapital-Invest were merged with LLC Tambovsky Bacon.

The following companies were liquidated during the year:

- holding company LLC OtradaAgro on 23 August 2019;
- trading company LLC Torgoviy dom Kapital Agro on 25 February 2019;
- Takelima Enterprises Limited on 27 May 2019;
Results
The Group’s results for the year are set out on page 2 of the consolidated financial statements.

Human resources management and environmental protection
The Group offers its employees opportunities to realize their professional potential, improve their knowledge and skills, work on interesting innovation projects and be part of a cohesive team. Group management believes that one of the keys to a successful business is maintaining a balance between the high quality and efficient work of all employees who share common values and principles on one hand, and the belief that one of the keys to a successful business is maintaining a balance between the high quality and efficient work of all employees who share common values and principles on one hand, and the skills, work on interesting innovation projects and be part of a cohesive team. The Group’s commitment to providing opportunities for career growth on the other. Group business divisions annually prepare and implement employee training and development plans based on the business’s strategic and current objectives, as well as needs identified by comprehensive assessment. Based on the results of a comprehensive assessment, every employee draws up an individual development plan for a period of one to two years that lists all training and development activities that are intended to advance the employee’s skills or pass on the knowledge they have gained.

The Group is committed to protecting the environment and minimizing the environmental impact of its operations in regions where it has a presence. All of the Group’s divisions constantly monitor wastewater runoff and air quality, and are equipped with treatment facilities that meet all the standards of applicable environmental legislation. The Group has implemented guidelines for maximum allowable emissions and guidelines for waste generation and established sanitary buffer zones for warehouses storing crop protection agents. The Group also returns packaging from crop protection agents and fertilizer to counterparties and performs soil deacidification efforts on farmland.

The composition and diversity information of the Board of Directors of the Group
The Board has determined that, as a whole, it has the appropriate skills and experience necessary to discharge its functions. Executive and Independent Directors have the experience required to contribute meaningfully to the Board’s deliberations and resolutions. Independent Directors assist the Board by constructively challenging and helping develop strategy proposals.

Dividends
Pursuant to its Articles of Association the Company may pay dividends out of its profits. In August 2013 the Board of Directors has approved a new dividend policy with payout ratio of at least 25% of the Group’s profit for the year applicable starting from the year ended 31 December 2013. To the extent that the Company declares and pays dividends, owners of Global Depositary Receipts (hereafter also referred as “GDRs”) on the relevant record date will be entitled to receive dividends payable in respect of Ordinary Shares underlying the GDRs, subject to the terms of the Deposit Agreement.

The Company is a holding company and thus its ability to pay dividends depends on the ability of its subsidiaries to pay dividends to the Company in accordance with the relevant legislation and contractual restrictions. The payment of such dividends by its subsidiaries is contingent upon the sufficiency of their earnings, cash flows and distributable reserves. The maximum dividend payable by the Company’s subsidiaries is restricted to the total accumulated retained earnings of the relevant subsidiary, determined according to the Russian law.

In 2019 the Company distributed RR 3,449,838 thousand of remaining dividends for 2018 and RR 1,683,841 thousand of interim dividends for 2019. The remaining dividends for 2018 amounted to RR 128.25 (gross) per share and interim dividends for 2019 amounted to RR 62.60 (gross) per share.

Subsequent to the year ended 31 December 2019, the Board of Directors recommends the payment of additional dividends out of the profits for 2019 and prior years’ undistributed reserves in the amount of RR 2,849,284 thousand. Given that the Company has already paid interim dividends for the 2019 in the amount of RR 1,683,841 thousand, the total dividend out of the profits for 2019 and prior years’ undistributed reserves amounts to RR 4,533,125 thousand.

The proposed dividend is subject to approval by the shareholders at the Annual General Meeting. These consolidated financial statements do not reflect the dividends that have not been approved on the reporting date.

Share capital
There were no changes in the share capital of the Company during 2018 and 2019.

The role of the Board of Directors
The Company is governed by its Board of Directors (hereafter also referred as “the Board”) which is collectively responsible to the shareholders for the successful performance of the Group.

The Board sets corporate strategic objectives, ensuring that the necessary financial and human resources are in place for the Group to meet its objectives and reviewing management performance. The Board of Directors sets the Group’s values and standards and ensures all obligations to shareholders are understood and met. The Board believes it maintains a sound system of internal control to safeguard the Group’s assets and shareholders’ investments in the Group.
ROS AGRO PLC
CONSOLIDATED MANAGEMENT REPORT

Significant direct/indirect holdings

For the significant direct and indirect shareholdings held by the Company, please refer to Note 1 of the consolidated financial statements.

Members of the Board of Directors

The members of the Board of Directors at 31 December 2019 and at the date of this report are shown in the beginning of these consolidated financial statements. All of them were members of the Board throughout the year ended 31 December 2019.

In accordance with the Company’s Articles of Association, one third of the Directors shall retire by rotation and seek re-election at each Annual General Meeting.

The Company’s Directors’ remuneration is disclosed in Note 28. There were no any significant changes to the Directors’ remuneration during the year ended 31 December 2019.

Directors’ Interests

The Directors Mr. Vadim Moshkovitch, Mr. Maxim Basov, Mr. Richard Andrew Smyth and Mr. Anastassios Televantides held interest in the Company as at 31 December 2019 and 31 December 2018.

Mr. Vadim Moshkovitch had no direct interest in the Company as at 31 December 2019 and 31 December 2018. The number of shares held indirectly through a company controlled by him as at 31 December 2019 is 19,327,829 (31 December 2018: 19,327,829).

The number of shares and GDRs held directly by Mr. Maxim Basov as at 31 December 2019 is 1,000,000 and 4,904,556 (equivalent of 980,611 shares), respectively (31 December 2018: 1,000,000 shares and 4,876,911 GDRs equivalent to 975,382 shares).

The number of GDRs held directly by Mr. Richard Andrew Smyth as at 31 December 2019 and 31 December 2018 is 31,125 (equivalent of 6,225 shares).

The number of GDRs held directly by Mr. Anastassios Televantides as at 31 December 2019 and 31 December 2018 is 10,000 (equivalent of 2,000 shares).

Audit Committee

The Board of Directors has established an Audit Committee. The Audit Committee is primarily responsible for (i) ensuring the integrity of our consolidated financial statements, (ii) ensuring our compliance with legal and regulatory requirements, (iii) evaluating our internal control and risk management procedures, (iv) assuring the qualification and independence of our independent auditors and overseeing the audit process and (v) resolving matters arising during the course of audits and coordinating internal audit functions. The Audit Committee consists of three members appointed by the Board of Directors. The current members are Mr. Anastassios Televantides (Chairman), Mr. Richard Andrew Smyth and Mrs. Ganna Khomenko.

Internal control and risk management systems in relation to the financial reporting process

The internal control and risk management systems relating to financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and to ensure compliance with applicable laws and regulations. The Audit Committee of the Board of directors of the Company reviews high-risk areas at least once a quarter. Reporting from various Group entities to the central office is supervised on an ongoing basis and procedures have been established for control and checking of such reporting. With each acquisition the Group seeks to adapt and incorporate the financial reporting system of the acquired operations quickly and efficiently.

Corporate Governance

Since 2011, the Company adopted the following codes: Code of Conduct on insider information and Code of Business Conduct and Ethics. In addition, since May 2014 the Company together with its subsidiaries and affiliates adopted a new edition of the Codes for mandatory compliance by all employees. In 2017 the Company adopted a new Code of Conduct and Business Ethics.
Independent Auditor’s Report

To the Members of ROS AGRO PLC

Report on the Audit of the Consolidated Financial Statements

Our opinion

In our opinion, the accompanying consolidated financial statements of ROS AGRO PLC (the “Company”) and its subsidiaries (together with the Company, the “Group”), give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap 113.

What we have audited

We have audited the consolidated financial statements which are presented in pages 1 to 71 and comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2019;
- the consolidated statement of changes in equity for the year ended 31 December 2019;
- the consolidated statement of cash flows for the year ended 31 December 2019; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the consolidated financial statements is International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap 113.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group throughout the period of our appointment in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Cyprus and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

By Order of the Board

Vadim Mashkovitch
Chairman of the Board of Directors

Larnaca
6 March 2020
Our audit approach

Overview
As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the Board of Directors made subjective judgments, for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality
Overall Group materiality: Russian Roubles (“RR”) 668 million, which represents 4.8% of average profit before tax for the past 5 financial years.

Audit Scope
We conducted audit work covering the significant components and the consolidation process. Analytical review procedures were performed for the remaining non-significant components.

Key Audit Matters
We have identified the analysis of expected credit loss allowance for loans receivable from Solnechnye producty as a key audit matter.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

<table>
<thead>
<tr>
<th>Materiality</th>
<th>How we determined it</th>
<th>Rationale for the materiality benchmark applied</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall Group materiality</td>
<td>4.8% of average profit before tax for the past 5 financial years</td>
<td>We chose profit before tax as the benchmark, because in our view, it is the measure against which the performance of the Group is most commonly assessed. The 4.8% benchmark is within the range of acceptable quantitative materiality thresholds for profit-oriented companies in this sector. Averaging was applied as the benchmark amount was significantly volatile over the last several years and in any one year that is not reflective of expectations of operating results for the current period or the foreseeable future.</td>
</tr>
</tbody>
</table>

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above RR 66 million, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

How we tailored our Group audit scope
ROS AGRO PLC is the parent company of a group of entities. The financial information of these entities is included in the consolidated financial statements of ROS AGRO PLC.

Considering our ultimate responsibility for the opinion on the Group’s consolidated financial statements we are responsible for the direction, supervision and performance of the Group audit. In this context, we tailored the scope of our audit and determined the nature and extent of the audit procedures for the components of the Group to ensure that we perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the significance and/or risk profile of the group entities or activities, the accounting processes and controls, and the industry in which the Group operates.

Our audit included full scope audit of four significant components and the consolidation process with analytical review procedures performed for two non-significant components.

By performing the procedures above, we have obtained sufficient and appropriate audit evidence regarding the consolidated financial information of the Group as a whole to provide a basis for our audit opinion on the consolidated financial statements.

Key audit matters incorporating the most significant risks of material misstatements, including assessed risk of material misstatements due to fraud

Key audit matters are those matters that, in our professional judgement, 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.
Key audit matter | How our audit addressed the key audit matter
---|---
Analysis of expected credit loss allowance for loans receivable from Solnechnyy producty | Refer to Note 4 – Short-term investments and Note 16 - Borrowings
During 2018, the Group entered into a transaction involving the acquisition of a secured debt from a third-party group of companies (Solnechnyy producty), which were classified as short-term and long-term investments and initially recognized at fair value.
During 2019, in applying the provisions of IFRS9, the Group did not recognize any expected credit loss allowance for the loans receivable from Solnechnyy producty because of the excess of the collateral value over the gross carrying amount of these loans as at 31 December 2019.
We focused our audit effort on the assessment of the fair value of the collateral as at 31 December 2019 due to the overall complexity of the analysis, the judgement applied in this calculation, as well as the significant magnitude of the carrying amount of the loan receivable from Solnechnyy producty as short-term.
We involved PwC valuation experts that have the knowledge and experience in the industry and the Russian market conditions to assist us in evaluating the methodology, models and assumptions used.
We evaluated the adequacy of the disclosures made in Notes 16 and 31 of the consolidated financial statements regarding the key measurement principles and the required qualitative and quantitative disclosures.
The results of the above procedures performed were satisfactory.

During 2019, in applying the provisions of IFRS9, the Group did not recognize any expected credit loss allowance for the loans receivable from Solnechnyy producty because of the excess of the collateral value over the gross carrying amount of these loans as at 31 December 2019.
We focused our audit effort on the assessment of the fair value of the collateral as at 31 December 2019 due to the overall complexity of the analysis, the judgement applied in this calculation, as well as the significant magnitude of the carrying amount of the loan receivable from Solnechnyy producty as short-term.
We involved PwC valuation experts that have the knowledge and experience in the industry and the Russian market conditions to assist us in evaluating the methodology, models and assumptions used.
We evaluated the adequacy of the disclosures made in Notes 16 and 31 of the consolidated financial statements regarding the key measurement principles and the required qualitative and quantitative disclosures.
The results of the above procedures performed were satisfactory.

For the purposes of evaluating the reasonableness of the fair value of the collateral, we requested and obtained the valuation prepared by the management’s expert as at 31 December 2019. We evaluated the objectivity, competence and capability of the expert and assessed the valuation by analysing the valuation inputs and assumptions, methodologies and calculations applied, and sensitivity analysis performed.
We have also assessed the management judgement in relation to the classification of the loans receivable from Solnechnyy producty as short-term.
We involved PwC valuation experts that have the knowledge and experience in the industry and the Russian market conditions to assist us in evaluating the methodology, models and assumptions used.
We evaluated the adequacy of the disclosures made in Notes 16 and 31 of the consolidated financial statements regarding the key measurement principles and the required qualitative and quantitative disclosures.
The results of the above procedures performed were satisfactory.

Reporting on other information
The Board of Directors is responsible for the other information. The other information comprises the information included in the Consolidated Management Report (which includes the Corporate Governance Statement) and Directors’ Responsibility Statement, which we obtained prior to the date of this auditor’s report, and the Company’s Annual Report, which is expected to be made available to us after that date. Other information does not include the consolidated financial statements and our auditor’s report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do 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 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. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor’s report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Company’s complete Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and if not corrected, we will bring the matter to the attention of the members of the Company at the Company’s Annual General Meeting and we will take such other action as may be required.

Responsibilities of the Board of Directors and those charged with governance for the Consolidated Financial Statements
The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors 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, the Board of Directors 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 the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group’s financial reporting process.
Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgement 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 the Board of Directors.
- Conclude on the appropriateness of the Board of Directors’ 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.
- 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 a true and fair view.
- 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.
- 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 with 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.

Report on Other Legal and Regulatory Requirements

Pursuant to the requirements of Article 10(2) of the EU Regulation 537/2014 we provide the following information in our Independent Auditor’s Report, which is required in addition to the requirements of International Standards on Auditing.

Appointment of the Auditor and Period of Engagement

We were first appointed as auditors of the Company during 2010 by a shareholder resolution for the audit of the financial statements for the year ended 31 December 2010. Our appointment has been renewed annually, since then, by shareholder resolution. In 2013 the Company was listed in the Main Market of the London Stock Exchange and accordingly the first financial year after the Company qualified as an EU PIE was the year ended 31 December 2012. Since then, the total period of uninterrupted engagement appointment was 8 years.

Consistency of the Additional Report to the Audit Committee

We confirm that our audit opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the Audit Committee of the Company, which we issued on 6 March 2020 in accordance with Article 11 of the EU Regulation 537/2014.

Statement on Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5 of the EU Regulation 537/2014 and Section 72 of the Auditors’ Law of 2017 were provided. In addition, there are no non-audit services which were provided to us by the Group and which have not been disclosed in the consolidated financial statements or the consolidated management report.

Other Legal Requirements

Pursuant to the additional requirements of the Auditors Law of 2017, we report the following:

- In our opinion, based on the work undertaken in the course of our audit, the consolidated management report has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and the information given is consistent with the consolidated financial statements.
- In light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the consolidated management report. We have nothing to report in this respect.
In our opinion, based on the work undertaken in the course of our audit, the information included in the corporate governance statement in accordance with the requirements of subparagraphs (iv) and (v) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113, and which is included as a specific section of the consolidated management report, have been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and is consistent with the consolidated financial statements.

In our opinion, based on the work undertaken in the course of our audit, the corporate governance statement includes all information referred to in subparagraphs (i), (ii), (iii), (vi) and (vii) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113.

In light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the corporate governance statement in relation to the information disclosed for items (iv) and (v) of subparagraph (a) of Article 151 of the Cyprus Companies Law, Cap. 113. We have nothing to report in this respect.

Other matter

This report, including the opinion, has been prepared for and only for the Company’s members as a body in accordance with Article 10(1) of the EU Regulation 537/2014 and Section 69 of the Auditors Law of 2017 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

The engagement partner on the audit resulting in this independent auditor’s report is Stelios Constantinou.

Stelios Constantinou
Certified Public Accountant and Registered Auditor
for and on behalf of
PricewaterhouseCoopers Limited
Certified Public Accountants and Registered Auditors
City House, 6 Karaiskakis Street,
CY-3032 Limassol, Cyprus
6 March 2020

ROS AGRO PLC
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019
(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)

<table>
<thead>
<tr>
<th>Note</th>
<th>31 December 2019</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>3</td>
<td>2,170,779</td>
</tr>
<tr>
<td>Restricted cash</td>
<td>39</td>
<td>49</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>4</td>
<td>23,456,952</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>5</td>
<td>8,968,349</td>
</tr>
<tr>
<td>Inventories</td>
<td>6</td>
<td>3,818,856</td>
</tr>
<tr>
<td>Current income tax receivable</td>
<td>225,316</td>
<td>535,459</td>
</tr>
<tr>
<td>Other taxes receivable</td>
<td>7</td>
<td>4,949,994</td>
</tr>
<tr>
<td>Inventories</td>
<td>6</td>
<td>44,506,998</td>
</tr>
<tr>
<td>Short-term biological assets</td>
<td>9</td>
<td>4,970,849</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td></td>
<td>90,615,889</td>
</tr>
<tr>
<td><strong>Non-current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>12</td>
<td>80,629,463</td>
</tr>
<tr>
<td>Inventories intended for construction</td>
<td>12</td>
<td>3,137,385</td>
</tr>
<tr>
<td>Rights-of-use assets</td>
<td>13</td>
<td>6,230,707</td>
</tr>
<tr>
<td>Goodwill</td>
<td>28</td>
<td>2,364,842</td>
</tr>
<tr>
<td>Advances paid for property, plant and equipment</td>
<td>6</td>
<td>8,721,155</td>
</tr>
<tr>
<td>Long-term biological assets</td>
<td>9</td>
<td>2,378,325</td>
</tr>
<tr>
<td>Long-term investments</td>
<td>10</td>
<td>42,036,323</td>
</tr>
<tr>
<td>Investments in associates</td>
<td>155,070</td>
<td>7,525</td>
</tr>
<tr>
<td>Deferred income tax assets</td>
<td>27</td>
<td>1,850,983</td>
</tr>
<tr>
<td>Other intangible assets</td>
<td>14</td>
<td>608,635</td>
</tr>
<tr>
<td>Other non-current assets</td>
<td>17,302</td>
<td>215,417</td>
</tr>
<tr>
<td><strong>Total non-current assets</strong></td>
<td></td>
<td>148,619,004</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td></td>
<td>239,234,893</td>
</tr>
</tbody>
</table>

| **LIABILITIES AND EQUITY** | | |
| Current liabilities | | |
| Short-term borrowings | 10 | 31,834,609 | 32,513,595 |
| Lease liabilities | 13 | 416,791 | |
| Trade and other payables | 17 | 17,492,814 | 12,190,169 |
| Current income tax payable | 123,846 | 60,913 | |
| Other taxes payable | 18 | 3,468,234 | 4,025,943 |
| **Total current liabilities** | | 53,635,584 | 48,768,611 |
| **Non-current liabilities** | | |
| Long-term borrowings | 15 | 66,040,784 | 62,887,531 |
| Government grants | 19 | 8,306,775 | 7,310,975 |
| Lease liabilities | 13 | 3,993,411 | |
| Deferred income tax liability | 27 | 494,977 | 356,051 |
| Other non-current liability | 16 | 2,460,613 | |
| **Total non-current liabilities** | | 78,832,341 | 72,259,770 |
| **TOTAL LIABILITIES** | | 132,466,325 | 121,513,881 |

| **EQUITY** | | |
| Share capital | 15 | 12,269 | 12,269 |
| Treasury shares | 15 | (490,007) | (490,007) |
| Share premium | 15 | 26,904,470 | 26,904,479 |
| Share-based payment reserve | 28 | 1,210,991 | 1,326,579 |
| Retained earnings | 78,960,845 | 79,399,049 | |
| Equity attributable to owners of ROS AGRO PLC | 158,160,676 | 160,088,489 | |
| Non-controlling interest | | 66,983 | 167,631 |
| **TOTAL EQUITY** | | 164,147,658 | 170,266,120 |
| **TOTAL LIABILITIES AND EQUITY** | | 239,234,893 | 223,778,621 |

Approved for issue and signed on behalf of the Board of Directors on 8 March 2020.

Maxim Basiev
Director of ROS AGRO PLC
Vadim Meshkov
Chairman of the Board of Directors

The accompanying notes on pages 5 to 71 are an integral part of these consolidated financial statements.
**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

**ROS AGRO PLC**

**IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

<table>
<thead>
<tr>
<th>Note</th>
<th>31 December 2019</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>138,172,424</td>
<td>82,977,711</td>
</tr>
<tr>
<td>Net (loss) / gain on revaluation of biological assets and agricultural produce</td>
<td>(110,470,963)</td>
<td>(11,871,624)</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(2,850,788)</td>
<td>(2,627,285)</td>
</tr>
<tr>
<td>Net (loss)/gain from trading derivatives</td>
<td>(7,348)</td>
<td>8,890</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td>23,582,166</td>
<td>34,157,747</td>
</tr>
</tbody>
</table>

**Distribution and selling expenses**

| 22 | (8,910,779) | (6,960,908) |

**General and administrative expenses**

| 23 | (6,711,055) | (5,168,528) |

**Other operating income/(expenses), net**

| 24 | 1,926,888 | 593,112 |

**Operating profit**

| 25 | 6,575,066 | 12,922,541 |

**Interest expense**

| 25 | (5,491,240) | (2,884,418) |

**Interest income calculated using the effective interest method**

| 25 | 5,140,878 | 3,581,272 |

**Other similar interest income**

| 25 | 2,163,067 | 421,680 |

**Net (loss)/gain from bonds held for trading**

| 25 | (27,711) | 41,940 |

**Other financial expenses/income, net**

| 25 | (330,695) | (166,842) |

**Profit before income tax**

| 25 | 12,444,263 | 13,511,793 |

**Income tax expense**

| 25 | (735,754) | (703,830) |

**Profit for the year**

| 25 | 9,708,509 | 12,827,963 |

**Total comprehensive income for the year**

| 25 | 9,708,509 | 12,827,963 |

**Profit is attributable to:**

- Owners of ROS AGRO PLC
  - Non-controlling interest
    | 9,808,204 | 12,807,823 |

**Profit for the year**

| 25 | 9,708,509 | 12,827,963 |

**Total comprehensive income is attributable to:**

- Owners of ROS AGRO PLC
  - Non-controlling interest
    | 9,808,204 | 12,807,823 |

**Total comprehensive income for the year**

| 25 | 9,708,509 | 12,827,963 |

**Earnings per ordinary share for profit attributable to the owners of ROS AGRO PLC, basic and diluted (in RR per share)**

| 29 | 364.62 | 476.15 |
The accompanying notes on pages 5 to 71 are an integral part of these consolidated financial statements.

**1. Background**

The Group was incorporated and is domiciled in the Russian Federation except for Limeniko Trade and Invest Limited which is incorporated in BVI.

Principal subsidiaries of the Group included into these consolidated financial statements are listed below.

<table>
<thead>
<tr>
<th>Group's share in the share capital, %</th>
<th>Entity</th>
<th>31 December 2019</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Agriculture</strong></td>
<td>OJSC Rusagro Group</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>LLC Group of Companies Rusagro</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>LLC Reauag-Sakhar</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>LLC Reauag-Belgorod</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>LLC Reauag-Promore</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>LLC Reauag-Totem</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>LLC Kshenskiy Sugar Plant</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>LLC Cherymskiy Sugar Plant</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>LLC Uzbek Sugar processing plant</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>Limeniko Trade and Invest Limited</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td><strong>Oil and Fat segment</strong></td>
<td>OJSC fats and oil integrated works</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>LLC Samaraagropromexport</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>CJSC Pugachevsky elevator</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>LLC Kolyshleytsky elevator</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>LLC moloko Belgorod</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td><strong>Meat segment</strong></td>
<td>LLC Tulsansky Elevator</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>LLC Reauag-Moloko</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>LLC Agrolineology</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>LLC Primagro</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>LLC KapitalAgro</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>LLC Onetsovagro</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>LLC Unovogro</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

**Effect of exchange rate changes on cash and cash equivalents**

<table>
<thead>
<tr>
<th>Year ended 31 December 2019</th>
<th>Year ended 31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net cash used in financing activities</td>
<td>(1,041,918)</td>
</tr>
</tbody>
</table>

Effect of exchange rate changes on cash and cash equivalents: 72,433, 162,243

Net decrease in cash and cash equivalents: 372,802, 131,357.

Cash and cash equivalents at the beginning of the year: 1,729,719, 1,728,396.

Cash and cash equivalents at the end of the year: 1,357,917, 1,560,654.
1. Background (continued)

Russian Federation. The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations (Note 32). The Russian economy continues to be negatively impacted by ongoing political tension in the region and international sanctions against certain Russian companies and individuals. Firm oil prices, low unemployment and rising wages supported a modest growth of the economy in 2019. This operating environment has a significant impact on the Group’s operations and financial position. Management is taking necessary measures to ensure sustainability of the Group’s operations. However, the future effects of the current economic situation are difficult to predict and management’s current expectations and estimates could differ from actual results.

2. Summary of significant accounting policies

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap.113. The consolidated financial statements have been prepared under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, financial instruments categorized at fair value through profit or loss and at fair value through other comprehensive income, biological assets that are presented at fair value less point-of-sale costs and agricultural produce which is measured at fair value less point-of-sale costs at the point of harvest. The Group entities registered in Russia keep their accounting records in Russian Roubles in accordance with Russian accounting regulations (RAR). These consolidated financial statements significantly differ from the financial statements prepared for statutory purposes under RAR in that they reflect certain adjustments, which are necessary to present the Group’s consolidated financial position, results of operations, and cash flows in accordance with IFRS as adopted by the EU.

As of the date of the authorisation of these consolidated financial statements all International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and effective as at 1 January 2019 have been adopted by the EU through the endorsement procedure established by the European Commission.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. Apart from the accounting policy changes resulting from the adoption of IFRS 16, Leases, effective from 1 January 2019, these policies have been consistently applied to all the periods presented unless otherwise stated. (refer to Notes 2.31 and 2.32).

2.2 Critical Accounting Estimates and Judgements in Applying Accounting Policies

Useful lives of property, plant and equipment

The estimation of the useful lives of items of property, plant and equipment is a matter of judgement based on the experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets. Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group.

The following primary factors are considered: (a) expected usage of the assets; (b) expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) technical or commercial obsolescence arising from changes in market conditions.

2.2 Critical Accounting Estimates and Judgements in Applying Accounting Policies (continued)

Fair value of livestock and agricultural produce

The fair value less estimated point-of-sale costs of livestock at the end of each reporting period is determined using the physiological characteristics of the animals, management expectations concerning the potential productivity and market prices of animals with similar characteristics.

The fair value of the Group’s bearer livestock is determined by using valuation techniques, as there were no observable market prices near the reporting date for pigs and cows of the same physical conditions, such as weight and age. The fair value of the bearer livestock was determined based on the expected quantity of remaining farrows and calves for pigs and cows, respectively, and the market prices of the young animals. The fair value of mature animals is determined based on the expected cash flow from the sale of the animals at the end of the production usage. The cash flow was calculated based on the actual prices of sales of culled animals from the Group’s entities to independent processing enterprises taking place near the reporting date, and the expected weight of the animals. Future cash flows were discounted to the reporting date at a current market-determined pre-tax rate. In the fair value calculation of the immature animals of bearer livestock management considered the expected culling rate.

Key inputs used in the fair value measurement of bearer livestock of the Group were as follows:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2019</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pigs</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cows (sows)</td>
<td>181</td>
<td>308</td>
</tr>
<tr>
<td>Cows (sows)</td>
<td>202</td>
<td>347</td>
</tr>
<tr>
<td><strong>Cows</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Length of production usage in calves / farrows</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Market prices for comparable bearer livestock in the same region (in Russian Roubles, excl. VAT)</td>
<td>5</td>
<td>5</td>
</tr>
</tbody>
</table>

Should the key assumptions used in determination of fair value of bearer livestock have been 10% higher/lower with all other variables held constant, the fair value of the bearer livestock as at the reporting dates would be higher or lower by the following amounts:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2019</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pigs</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cows (sows)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Length of production usage in calves</td>
<td>2,535</td>
<td>(3,019)</td>
</tr>
<tr>
<td>Market prices for comparable bearer livestock in the same region</td>
<td>11,442</td>
<td>(11,442)</td>
</tr>
<tr>
<td>Pigs (sows)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Length of production usage in calves</td>
<td>42,259</td>
<td>(30,155)</td>
</tr>
<tr>
<td>Market prices for comparable bearer livestock in the same region</td>
<td>162,759</td>
<td>(162,759)</td>
</tr>
</tbody>
</table>

The fair value of consumable livestock (pigs) is determined based on the market prices multiplied by the livestock weight at the end of each reporting period, adjusted for the expected culling rates. The average market price of consumable pigs being the key input used in the fair value measurement was 71.0 Russian Roubles per kilogram, excluding VAT, as at 31 December 2019 (31 December 2018: 91.0 Russian Roubles per kilogram, excluding VAT).

Should the market prices used in determination of fair value of consumable livestock have been 10% higher/lower with all other variables held constant, the fair value of the consumable livestock as at 31 December 2019 would be higher/lower by RR 306,210 (31 December 2018: RR 290,692).
2 Summary of significant accounting policies (continued)

2.2 Critical Accounting Estimates and Judgements in Applying Accounting Policies (continued)

Fair value of livestock and agricultural produce (continued)

The fair value less estimated point-of-sale costs for agricultural produce at the time of harvesting was calculated based on quantities of crops harvested and the prices on deals that took place in the region of location on or about the moment of harvesting and was adjusted for estimated point-of-sale costs at the time of harvesting.

The average market prices (Russian Roubles/tonne, excluding VAT) used for fair value measurement of harvested crops were as follows:

<table>
<thead>
<tr>
<th>Crop</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sugar beet</td>
<td>1,992</td>
<td>2,204</td>
</tr>
<tr>
<td>Wheat</td>
<td>8,564</td>
<td>8,390</td>
</tr>
<tr>
<td>Barley</td>
<td>8,200</td>
<td>9,051</td>
</tr>
<tr>
<td>Sunflower</td>
<td>16,862</td>
<td>19,181</td>
</tr>
<tr>
<td>Com</td>
<td>14,024</td>
<td>9,213</td>
</tr>
<tr>
<td>Soybean</td>
<td>22,357</td>
<td>27,745</td>
</tr>
</tbody>
</table>

Should the market prices used in determination of fair value of harvested crops have been 10% higher/lower with all other variables held constant, the fair value of the crops harvested in 2019 would be higher/lower by RR 2,043,291 (2018: RR 2,176,842).

Fair value of investment in LLC GK Agro-Belogorie

Key inputs and assumptions used in the fair value measurement of investment in LLC GK Agro-Belogorie are disclosed in Note 10 and Note 31.

Estimated impairment of goodwill

The Group tests goodwill for impairment at least annually. The recoverable amounts of cash-generating units ("CGUs") have been determined based on value-in-use calculations. These calculations require the use of estimates as further detailed in Note 26.

Impairment test of property, plant and equipment and other intangible assets

As at 31 December 2019 and as at 31 December 2018 determined that there were no indicators that would necessitate performing an impairment test of property, plant and equipment and other intangible assets at any of the CGUs.

Deferred income tax asset recognition

The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the consolidated statements of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable and in relation to losses carried forward it is also based on management judgement about adequacy of expenses included in the related profit tax base. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium-term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances. The key assumptions in the business plan are EBITDA margin and pre-tax discount rate (Notes 26, 27).

Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations (Note 32).
2.4 Group accounting

Consolidation

Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power over direct or indirect activities of the other vote holders that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of its investments. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee’s activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries other than those acquired from parties under common control. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest’s proportionate share of net assets of the acquiree.

Goodwill is measured by deducting the fair value of net assets of the acquiree from the aggregate of the fair value of the consideration given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excluding acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group’s policies.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest forms a separate component of the Group’s equity.

Associates

Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor’s share of changes in net asset of associates after the date of acquisition. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in the Group’s share of net assets of an associate are recognised as follows: (i) the Group’s share of profits or losses of associates is recorded in the consolidated profit or loss for the year as the share of results of associates, (ii) the Group’s share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii) all other changes in the Group’s share of the carrying value of net assets of associates are recognised in profit or loss within the share of results of associates.

However, when the Group’s share of losses in an associate is equal or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group’s interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Purchases of non-controlling interests

The Group applies the economic entity model to account for transactions with owners of non-controlling interest. The difference, if any, between the carrying amount of a non-controlling interest acquired and the purchase consideration is recorded as capital transaction in the consolidated statements of changes in equity.

Purchases of subsidiaries from parties under common control

Business combinations involving entities under common control (ultimately controlled by the same party, before and after the business combination, and that control is not transitory) are accounted for using the predecessor basis of accounting. Under this method the consolidated financial statements of the acquiree are included in the consolidated financial statements from the beginning of the earliest period presented if, if the date when common control was established. The assets and liabilities of the subsidiary transferred under common control are accounted for at the predecessor entity’s IFRS carrying amounts using uniform accounting policies on the assumption that the Group was in existence from the date when common control was established. Any difference between the carrying amount of net assets, including the predecessor entity’s goodwill, and the consideration for the acquisition is accounted for in the consolidated financial statements as an adjustment to retained earnings within equity.

Disposals of subsidiaries and associates

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial capital amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity, are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

2.5 Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and provision for impairment, if any.

Assets under construction are accounted for at purchase cost less provision for impairment, if required.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing a major part or component of property, plant and equipment items is capitalized and the replaced part is retired.

Upon sale or retirement, the cost and related accumulated depreciation are eliminated from the consolidated financial statements. Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are included in operating profit or loss for the year within other operating income and expenses.
2 Summary of significant accounting policies (continued)

2.6 Depreciation

Depreciation on property, plant and equipment other than land and assets under construction is calculated using the straight-line method to allocate their cost to the residual values over their estimated useful lives:

<table>
<thead>
<tr>
<th>Asset category</th>
<th>Useful life, years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings</td>
<td>15-50</td>
</tr>
<tr>
<td>Constructions</td>
<td>5-50</td>
</tr>
<tr>
<td>Machinery, vehicles &amp; equipment</td>
<td>2-20</td>
</tr>
<tr>
<td>Other</td>
<td>4-6</td>
</tr>
</tbody>
</table>

Assets are depreciated on a straight-line basis from the month following the date they are ready for use.

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

2.7 Biological assets and agricultural produce

Biological assets consist of unharvested crops (grain crops, sugar beets and other plant crops) and livestock (pigs and cows).

Livestock is measured at their fair value less estimated point-of-sale costs. Fair value at initial recognition is assumed to be approximately equal to the purchase price incurred. Point-of-sale costs include all costs that would be necessary to sell the assets. All gains or losses arising from initial recognition of biological assets and from changes in fair-value less-cost-to-sell of biological assets less the amounts of those gains or losses related to the realised biological assets are included in a separate line "Net gain/ (loss) on revaluation of biological assets and agricultural produce" above the gross profit line.

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 since initial cost incurrence due to the seasonal nature of the crops. Unharvested crop-growing costs represent costs incurred to plant and maintain seed crops which will be harvested during the subsequent reporting period. Subsequent to the year-end unharvested crops are measured at fair value less estimated point-of-sale costs. A gain or loss from the changes in the fair value less estimated point-of-sale costs of unharvested crops less the amount of such gain or loss related to the realisation of agricultural products is included as a separate line "Net gain/ (loss) on revaluation of biological assets and agricultural produce" above the gross profit line.

Upon harvest, grain crops, sugar beets and other plant crops are included into inventory for further processing or for sale and are initially measured at their fair value less estimated point-of-sale costs at the time of harvesting. A gain or loss arising on initial recognition of agricultural produce at fair value less estimated point-of-sale costs of unharvested crops less the amount of such gain or loss related to the realisation of agricultural products is recognised in profit or loss in the period in which it arises.

Buller livestock is classified as non-current assets; consumable livestock and unharvested crops are classified as current assets in the consolidated statement of financial position.

2.8 Goodwill

Goodwill on acquisitions of subsidiaries is presented separately in the consolidated statement of financial position. Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment. Gains or losses on disposal of an operation within a cash-generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

2.9 Intangible assets

The Group’s intangible assets other than goodwill have definite useful lives and primarily include capitalised computer software, patents, trademarks and licences. Acquired computer software licences, patents and trademarks are capitalised on the basis of the costs incurred to acquire and bring them to use. Intangible assets are amortised using the straight-line method over their useful lives:

<table>
<thead>
<tr>
<th>Asset category</th>
<th>Useful life, years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trademarks</td>
<td>5-12</td>
</tr>
<tr>
<td>Software licences</td>
<td>1-3</td>
</tr>
<tr>
<td>Capitalised internal software development costs</td>
<td>3-5</td>
</tr>
<tr>
<td>Other licences</td>
<td>1-3</td>
</tr>
</tbody>
</table>

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

2.10 Impairment of non-current assets

The Group’s non-current assets except for deferred tax, biological assets and financial assets are tested for impairment in accordance with the provisions of IAS 36, Impairment of Assets. The Group makes an assessment whether there is any indication that an asset may be impaired at each reporting date, except for goodwill which is tested at least annually regardless of whether there are any indications of impairment. If any such indication exists, an estimate of the recoverable amount of the asset is made. IAS 36 requires an impairment loss to be recognised whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the higher of the asset’s fair value less costs to sell and its value in use. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its life.

2.11 Non-current assets classified as held for sale

Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the statement of financial position as ‘non-current assets held for sale’ if their carrying amount will be recovered principally through a sale transaction (including loss of control of a subsidiary holding the assets) within twelve months after the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group’s management has approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year; and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn.

Non-current assets or disposal groups classified as held for sale in the current period’s statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

A disposal group is a group of assets (current and non-current) to be disposed of, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit to which goodwill has been allocated on acquisition. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs of disposal. Held for sale property, plant and equipment, investment properties and intangible assets are not depreciated or amortised. Reclassified non-current financial instruments and deferred taxes and investment properties held at fair value are not subject to write down to the lower of their carrying amount and fair value less costs of disposal.

Liabilities directly associated with the disposal group that will be transferred in the disposal transaction are reclassified and presented separately in the consolidated statement of financial position.
2.12 Financial instruments

Financial instruments – key measurement terms

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. The best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the number of instruments held by the entity. This is the case even if a market’s normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Valuation techniques such as discounted cash flow models or models based on current arm’s length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost (“AC”) is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses (“ECL”). Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to the maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount, are included in the carrying values of the related items in the consolidated statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant period rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate. For assets that are purchased or originated credit impaired (“POCI”) at initial recognition, the effective interest rate is adjusted for credit risk, i.e. it is calculated based on the expected cash flows on initial recognition instead of contractual payments.
2 Summary of significant accounting policies (continued)

2.12 Financial instruments (continued)

Financial assets impairment – credit loss allowance for expected credit loss (continued)

Debt instruments measured at amortised cost and contract assets are presented in the consolidated statement of financial position net of the allowance for expected credit loss. For loan commitments and financial guarantees, a separate provision for expected credit loss is recognised as a liability in the consolidated statement of financial position. For debt instruments at fair value through other comprehensive income, changes in amortised cost, net of allowance for expected credit loss, are recognised in profit or loss and other changes in carrying value are recognised in other comprehensive income as gains less losses on debt instruments at fair value through other comprehensive income.

The Group applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their expected credit loss measured at an amount equal to the portion of lifetime expected credit loss that results from default events possible within the next 12 months or until contractual maturity, if shorter. If the Group identifies a significant increase in credit risk since initial recognition, the asset is transferred to Stage 2 and its expected credit loss is measured based on expected credit loss on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any. Refer to Note 31 for a description of how the Group determines when a significant increase in credit risk has occurred. If the Group determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its expected credit loss is measured as a Lifetime expected credit loss. The Group’s definition of credit impaired assets and definition of default is explained in Note 31. For financial assets that are purchased or originated credit-impaired, the expected credit loss is always measured as a Lifetime expected credit loss. Note 31 provides information about inputs, assumptions and estimation techniques used in measuring expected credit losses, including an explanation of how the Group incorporates forward-looking information in the expected credit loss models.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables.

To measure the expected credit losses, trade and other receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 36 month before each balance sheet date and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP and the unemployment rate of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

Financial assets – write-off. Financial assets are written-off, in whole or in part, when the Group exhausts all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Group may write-off financial assets that are still subject to enforcement activity when the Group seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

Financial assets – derecognition

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement whilst (c) also transferring substantially all the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statements of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) in the event of default and (iii) in the event of insolvency or bankruptcy. There were no offsets of financial assets and liabilities as at 31 December 2019.

IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE
2 Summary of significant accounting policies (continued)
2.12 Financial instruments (continued)

Presentation of results from sugar trading derivatives

The Group engages in raw sugar derivative trading transactions through an agent on ICE Futures US primarily in order to manage the raw sugar purchase price risk (Note 31). As such transactions are directly related to the core activity of the Group, their results are presented above gross profit as 'Net gain from trading derivatives' in the consolidated statement of profit or loss and other comprehensive income. Management believes that the presentation above gross profit line appropriately reflects the nature of derivative operations of the Group.

2.13 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, cash held on demand with banks, bank deposits with original maturity of less than three months, other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at fair value through profit and loss. Features mandated solely by legislation, such as the bail-in legislation in certain countries, do not have an impact on the SPPI test, unless they are included in contractual terms such that the feature would apply even if the legislation is subsequently changed.

Restricted balances are excluded from cash and cash equivalents for the purposes of the consolidated cash flow statements. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period are included in non-current assets.

2.14 Investments

Bank deposits with original maturities of more than three months and less than twelve months are classified as short-term investments and are carried at amortised cost using the effective interest method.

Bank deposits with original maturity of more than twelve months are classified as long-term and are carried at amortised cost.

Bond held for trading are securities which are acquired solely to generate a profit from short-term fluctuations in price or trader’s margin, or are included in a portfolio in which a pattern of short-term trading exists. These financial assets are classified as part of “other” business model and measured at fair value through profit and loss. Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Group undertakes to achieve the objective set out for the portfolio available at the date of initial assessment. Factors considered by the Group in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed, how the assets’ performance is assessed and how managers are compensated.

2.15 Prepayments

Prepayments classified as current assets represent advance payments to suppliers for goods and services. Prepayments for construction or acquisition of property, plant and equipment and prepayments for intangible assets are classified as non-current assets. Prepayments are carried at cost less provision for impairment, if any. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

2.16 Inventories

Inventories are stated at the lower of cost or net realisable value. Cost is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads based on normal operating capacity but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses. Raw materials intended for the operating activities of the Group, finished goods and work in progress are classified as current assets. Materials intended for construction are classified as non-current assets as “Inventories intended for construction”.

2.17 Borrowings

Borrowings are recognised initially at their fair value, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective interest method. Any difference between the amount at initial recognition and the redemption amount is recognised as interest expense over the period of the borrowings. Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale. The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the Group’s average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

2.18 Trade and other payables

Trade and other payables are recognised when the counterparty has performed its obligations under the contract, and are carried at amortised cost using the effective interest method.

2.19 Value added tax

Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to purchases where all the specified conditions for recovery have not been met yet is recognised in the consolidated statements of financial position and disclosed separately within other taxes receivable, while input VAT that has been claimed is netted off with the output VAT payable. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

2.20 Other taxes payable

Other taxes payable comprise liabilities for taxes other than on income outstanding at the reporting date, accrued in accordance with legislation enacted or substantively enacted by the end of the reporting period.

2.21 Income tax

Income taxes have been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge or credit comprises current tax and deferred tax and is recognised in profit or loss for the year.

Current tax

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods.

Deferred tax

Deferred income tax is provided in full, using the balance sheet liability method, on tax losses carry forward and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax balance is determined using tax rates that have been enacted or substantially enacted at the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.
Deferred tax (continued)
Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

2.22 Employee benefits

Payroll costs and related contributions
Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year, in which the associated services are rendered by the employees of the Group.

Pension costs
The Group contributes to the Russian Federation state pension fund on behalf of its employees and has no obligation beyond the payments made. The contribution was approximately 19.6% (2018: 20.8%) of the employees' gross pay and is expensed in the same period as the related salaries and wages.

The Group does not have any other legal or constructive obligation to make pension or other similar benefit payments to its employees.

Share-based payment transactions
The Group accounts for share-based compensation in accordance with IFRS 2, Share-based Payment. The fair value of the employee services received in exchange for the grant of the equity instruments is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the instruments granted measured at the grant date. For share-based compensation made to employees by shareholders, an increase to share-based payment reserve in equity is recorded equal to the associated compensation expense each period.

2.23 Provisions for liabilities and charges
Provisions for liabilities and charges are recognised where the Group has a present legal or constructive obligation as a result of past events. It is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

2.24 Revenue recognition
Revenue is income arising in the course of the Group's ordinary activities. Revenue is recognised in the amount of transaction price. Transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties. Revenue is recognised net of discounts and value added taxes.

2.24 Revenue recognition (continued)
Sales of goods. Sales are recognised when control of the good has transferred, being when the goods are delivered to the customer, the customer has full discretion over the goods, and there is no unfilled obligation that could affect the customer's acceptance of the goods. Delivery occurs when the goods 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 goods in accordance with the contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Revenue from the sales with discounts is recognised based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

If the Group provides any additional services to the customer after control over goods has passed, revenue from such services is considered to be a separate performance obligation and is recognised over the time of the service rendering.

Commodity loans. The Group provides and obtains commodity loans from other grain traders at the point of transhipment by entering into sales and purchase agreements. Commodity loans are usually returned within several months by reverse transactions between the same parties on identical terms.

These transactions are in substance commodity loans, rather than sale and purchase transactions. Therefore, revenue and cost of sales attributable to these transactions are eliminated from the consolidated statement of profit or loss.

Sales of transportation services. Revenue from providing transportation services is recognised in the accounting period in which these services are rendered. For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided because the customer receives and uses the benefits simultaneously.

Where the contracts include multiple performance obligations, the transaction price is allocated to each separate performance obligation based on the stand-alone selling price. Where these are not directly observable, they are estimated based on expected cost plus margin.

Interest income. Interest income is recorded for all debt instruments, other than those at fair value through profit and loss on an accrual basis using the effective interest method. This method defers, as part of interest income, all fee received between the parties to the contract that are an integral part of the effective interest rate. Interest income on debt instruments at fair value through profit and loss calculated at nominal interest rate is presented within 'finance income' line in profit or loss.

Contract assets and liabilities are not separately presented in the consolidated statement of financial position as they are not material.

2.25 Segment reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

2.26 Government grants
Government grants comprise compensation of interest expense under bank loans and government grants relating to costs and property, plant and equipment.
Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to profit or loss on a straight-line basis over the expected lives of the related assets. Government grants relating to costs are deferred and recognised in profit or loss as other operating income over the period necessary to match them with the costs that they are intended to compensate.

Compensation of interest expense under bank loans is credited to profit or loss over the periods of the related interest expense unless this interest was capitalised into the carrying value of assets in which case it is included in non-current liabilities as government grants and credited to profit or loss on a straight-line basis over the expected lives of the related assets.

The benefit of a government loan at a below-market rate of interest is treated as a government grant. The loan is recognised and measured in accordance with IFRS 9 Financial Instruments: Recognition and Measurement. The benefit of the below-market rate of interest is measured as the difference between the initial carrying value of the loan determined in accordance with IFRS 9 and the proceeds received.

Bank loans at a below-market rate of interest under the programme of government support are recognized on a straight-line basis over the expected lives of the related assets.

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2 Summary of significant accounting policies (continued)

2.32 Lease liabilities (continued)

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take place, the lease liability is reassessed and adjusted against the right-of-use asset. Lease payments are allocated between principal and finance costs. The finance costs are charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture with value of RR 300 thousand or less.

2.33 Accounting policies before 1 January 2019

Accounting policies applicable to the comparative period ended 31 December 2018 that were amended by IFRS 16, Leases, are as follows.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year on a straight-line basis over the lease term. The lease term is the non-cancelable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

Finance lease liabilities. Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charge so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to profit or loss over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term, if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

2.34 Adoption of new or revised standards and interpretations

During the current year the Group adopted all the new and revised International Financial Reporting Standards (IFRS) that are relevant to its operations and are effective for accounting periods beginning on 1 January 2019.

Adoption of IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The Group decided to apply the standard from its mandatory adoption date on 1 January 2019 using the modified retrospective method, without restatement of comparatives and using certain simplifications allowed by the standard. Right-of-use assets are measured at the amount of the liability for each period.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019,
2 Summary of significant accounting policies (continued)

2.34 Adoption of new or revised standards and interpretations (continued)

The following amended standards became effective from 1 January 2019, but did not have any material impact on the Group:

- IFRIC 23 “Uncertainty over Income Tax Treatments” (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 28 “Long-term Interests in Associates and Joint Ventures” (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2015-2017 cycle – amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement” (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2020 or later, and which the Group has not early adopted.

Adopted by the European Union

Amendments

Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 30 November 2018 and effective for annual periods beginning on or after 1 January 2020).

Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).

Interest rate benchmark reform - Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2018 and effective for annual periods beginning on or after 1 January 2019).

Not yet adopted and not yet endorsed by the European Union

New standards


Amendments

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014).

Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018).

Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020).
5. Trade and other receivables

The credit loss allowance for trade and other receivables is determined according to the provision matrix presented in the table below. The provision matrix is based on the number of days that an asset is past due.

<table>
<thead>
<tr>
<th>31 December 2019</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss rate</td>
<td>Gross carrying amount</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>5,636,414</td>
</tr>
<tr>
<td>- less than 90 days overdue</td>
<td>87,811</td>
</tr>
<tr>
<td>- 91 to 180 days overdue</td>
<td>9,892</td>
</tr>
<tr>
<td>- over 360 days overdue</td>
<td>49,443</td>
</tr>
<tr>
<td>Total trade receivables (gross carrying amount)</td>
<td>5,946,896</td>
</tr>
<tr>
<td>Credit loss allowance</td>
<td>239,248</td>
</tr>
<tr>
<td>Total trade receivables from contracts with customers (carrying amount)</td>
<td>5,707,650</td>
</tr>
</tbody>
</table>

Other receivables

<table>
<thead>
<tr>
<th>31 December 2019</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss rate</td>
<td>Gross carrying amount</td>
</tr>
<tr>
<td>Other receivables</td>
<td>-</td>
</tr>
<tr>
<td>- current</td>
<td>185,466</td>
</tr>
<tr>
<td>- less than 90 days overdue</td>
<td>3,152</td>
</tr>
<tr>
<td>- 91 to 180 days overdue</td>
<td>1,357</td>
</tr>
<tr>
<td>- over 360 days overdue</td>
<td>52,947</td>
</tr>
<tr>
<td>Total other receivables</td>
<td>239,248</td>
</tr>
<tr>
<td>Credit loss allowance</td>
<td>112,014</td>
</tr>
<tr>
<td>Total other receivables (carrying amount)</td>
<td>188,808</td>
</tr>
</tbody>
</table>

The Group did not recognise any expected credit loss allowance for trade receivable in amount of 1,228,648 because of excess of collateral value over the gross carrying value of these receivable as at 31 December 2019 (Note 16).

7. Other taxes receivable

As at 31 December 2019 | 2018 |
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Value added tax receivable</td>
<td>4,233,415</td>
</tr>
<tr>
<td>Other taxes receivable</td>
<td>115,985</td>
</tr>
<tr>
<td>Total</td>
<td>4,349,400</td>
</tr>
</tbody>
</table>
In 2018, sales of sugar and grain have been postponed until 2019 due to the market conditions that resulted in an increase of finished goods and agricultural produce balance as at 31 December 2018 compared to 2019.

Inventories

The fair value of biological assets belongs to level 3 measurements in the fair value hierarchy. Pricing model is based on the assumptions that are set out in Note 2.2. Sensitivity to reasonably possible changes in those inputs are disclosed in Note 2.2.

9 Biological assets

The fair value of biological assets is measured in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets. Key inputs in the fair value measurement of the livestock and the agricultural crops harvested together with sensitivity to reasonably possible changes in those inputs are disclosed in Note 2.2.

Long-term biological assets

In 2019 the aggregate gain on initial recognition of agricultural produce and from the change in fair value less estimated point-of-sale costs of biological assets amounted to RR 2,457,464 (2018: RR 4,278,726).

Included in the above amounts there are gains related to realised biological assets and agricultural produce amounting to RR 6,569,411 (2018: RR 1,427,938).

Livestock population were as follows:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2019</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cows</td>
<td>2,160</td>
<td>2,121</td>
</tr>
<tr>
<td>Pigs</td>
<td>116,664</td>
<td>99,670</td>
</tr>
<tr>
<td>Sheep</td>
<td>54,995</td>
<td>38,984</td>
</tr>
</tbody>
</table>

Cows are bred for the purpose of production of milk. In 2019 the milk produced amounted to 6,897 tonnes (2018: 6,484 tonnes).

In 2019 total area of cultivated land amounted to 608 thousand ha (2018: 582 thousand ha).

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

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sugar beet</td>
<td>3,932</td>
<td>3,487</td>
</tr>
<tr>
<td>Wheat</td>
<td>708</td>
<td>694</td>
</tr>
<tr>
<td>Barley</td>
<td>190</td>
<td>203</td>
</tr>
<tr>
<td>Sunflower</td>
<td>88</td>
<td>60</td>
</tr>
<tr>
<td>Corn</td>
<td>106</td>
<td>145</td>
</tr>
<tr>
<td>Soya bean</td>
<td>312</td>
<td>219</td>
</tr>
</tbody>
</table>

Long-term biological assets (continued)

The above long-term investments are denominated in Russian Roubles. Interest receivable on bonds to collect is disclosed in Note 4.
10 Long-term investments (continued)

As at 31 December 2019 bank deposits in the amount of RR 13,900,000 (31 December 2018: RR 13,900,000) were pledged as collateral for the Group’s borrowings.

Bank deposits include restricted deposit in Vnesheconombank in amount of RR 13,900,000 which could not be withdrawn till 27 November 2028 (Note 16).

Bonds held to collect include restricted bonds in Rossetkhobzbank in amount of the RR 19,900,000 which could not be withdrawn till 22 November 2038 (Note 16).

On 20 August 2019 the Group acquired 22.5% of ownership interest in LLC GK Agro-Belogorie, one of the largest pork producers in Russia and a large landholder in Belgorod region. Total cash consideration transferred under the deal amounted to RR 8,500,000.

Key business areas of investee include industrial pig farming and meat processing, milk livestock, crop and feed production.

Investment in LLC GK Agro-Belogorie is classified as investment at fair value through other comprehensive income. The management considers that the Group does not have significant influence over LLC GK Agro-Belogorie due to the following:

- The Group has no power to appoint the members of the board of directors or equivalent governing body of LLC GK Agro-Belogorie;
- Group management does not participate in policy-making processes, including decisions about dividends or other distributions;
- There were no material transactions or interchange of managerial personnel between the Group and LLC GK Agro-Belogorie since the share acquisition date;
- No essential technical information was interchanged between the Group and LLC GK Agro-Belogorie.

The fair value of the investment determined applying the level 3 valuation model amounted to RR 8,500.00 at acquisition date.

Subsequent to the initial recognition this investment is measured at fair value through other comprehensive income. As at 31 December 2019 the fair value of acquired investment amounted to RR 8,500.00.

The fair value of the investment has been determined based on discounted cash flow calculation using the actual financial data and budgets of LLC GK Agro-Belogorie covering a five-year period and the expected market prices for the key products for the same period according to leading industry publications. Cash flows beyond the five-year period were projected with a long-term growth rate of 2.0% per annum.

The assumptions used for calculation and sensitivity of fair value measurement are presented in Note 31.

Bonds held for trading and held to collect were denominated in Russian Roubles and mature in the period from 2022 till 2038. Nominal interest rates on bonds vary between 7% and 10.5%. Bonds held for trading were acquired with the intention of generating a profit from short-term price fluctuations and for the purpose of these consolidated financial statements were classified as trading investments with measurement at fair value through profit and loss.

The table below shows the rating and balances of bonds held for trading and bonds held to collect:

<table>
<thead>
<tr>
<th>Rating agency</th>
<th>31 December 2019</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rating</td>
<td>Balance</td>
</tr>
<tr>
<td>Rossetkhobzbank</td>
<td>Fitch Ratings</td>
<td>bbb-</td>
</tr>
<tr>
<td>VimpelCom Ltd</td>
<td>Fitch Ratings</td>
<td>bbb+</td>
</tr>
<tr>
<td>LLC Lenta</td>
<td>Fitch Ratings</td>
<td>bb</td>
</tr>
<tr>
<td>Total bonds (Note 10)</td>
<td></td>
<td>20,163,222</td>
</tr>
</tbody>
</table>

11. Non-current assets classified as held for sale

Major classes of non-current assets classified as held for sale are as follows:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2019</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property, plant and equipment</td>
<td>RR 820,950</td>
<td>-</td>
</tr>
<tr>
<td>Total non-current assets classified as held for sale</td>
<td>-</td>
<td>RR 820,950</td>
</tr>
</tbody>
</table>

As at 31 December 2018 Non-current assets held for sale represented the fair value of production assets of vegetable oil processing plant AO Maslozhirkombinat Armavirski, which were pledged under the loans acquired by the Group from RSHB (Note 16). These assets were purchased in December 2018 through settlement against the respective loan receivable of RR 504,927. The resulting gain of RR 316,023 was reflected as “Gain from reposition of collateral” within Other operating income and expenses (Note 24).

These assets were sold in April 2019 for sale consideration of RR 408,839 (Note 24) resulting in loss to be reflected in Note 24. There are no non-current assets classified as held for sale at 31 December 2019.

12. Property, plant and equipment

Movements in the carrying amount of property, plant and equipment were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Land</th>
<th>Machinery, vehicles and equipment</th>
<th>Buildings and constructions</th>
<th>Assets under construction</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost (Note 2.5)</td>
<td>7,638,981</td>
<td>44,068,086</td>
<td>26,245,153</td>
<td>11,464,414</td>
<td>280,959</td>
<td>89,697,593</td>
</tr>
<tr>
<td>Additions</td>
<td>452,531</td>
<td>2,057,024</td>
<td>126,675</td>
<td>14,748,910</td>
<td>1,381</td>
<td>17,386,521</td>
</tr>
<tr>
<td>Acquisitions through business combinations (Note 26)</td>
<td>4,810</td>
<td>901,879</td>
<td>1,738,592</td>
<td>13,578</td>
<td>-</td>
<td>2,658,859</td>
</tr>
<tr>
<td>Transfers</td>
<td>5,213,876</td>
<td>4,648,596</td>
<td>9,865,875</td>
<td>3,403</td>
<td>-</td>
<td>18,921,634</td>
</tr>
<tr>
<td>Disposals</td>
<td>(139,737)</td>
<td>(275,971)</td>
<td>(87,454)</td>
<td>(226,884)</td>
<td>(19,472)</td>
<td>(828,516)</td>
</tr>
<tr>
<td>As at 31 December 2018</td>
<td>7,956,585</td>
<td>37,984,994</td>
<td>22,381,462</td>
<td>16,124,145</td>
<td>267,217</td>
<td>158,914,405</td>
</tr>
<tr>
<td>Accumulated depreciation (Note 2.6)</td>
<td>-</td>
<td>(24,902,623)</td>
<td>(9,121,455)</td>
<td>(183,431)</td>
<td>(33,397,509)</td>
<td></td>
</tr>
<tr>
<td>As at 31 December 2018</td>
<td>-</td>
<td>(29,598,110)</td>
<td>(15,242,872)</td>
<td>(196,676)</td>
<td>(36,795,018)</td>
<td></td>
</tr>
<tr>
<td>Net book value as at 31 December 2018</td>
<td>7,956,585</td>
<td>22,568,084</td>
<td>21,875,151</td>
<td>16,124,145</td>
<td>72,489</td>
<td>92,119,387</td>
</tr>
</tbody>
</table>
12. Property, plant and equipment (continued)

Machinery, vehicles and equipment with a net book value of RR 91,450 as at 1 January 2019 were reclassified to Right-of-use-assets as a result of IFRS16 adoption.

<table>
<thead>
<tr>
<th>Land</th>
<th>Machinery, vehicles and equipment</th>
<th>Buildings and constructions</th>
<th>Assets under construction</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost (Note 2.5)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>As at January 2019</td>
<td>7,056,585</td>
<td>51,744,510</td>
<td>32,691,562</td>
<td>16,134,143</td>
<td>267,271</td>
</tr>
<tr>
<td>Additions</td>
<td>445,236</td>
<td>1,443,712</td>
<td>41,675</td>
<td>18,600,742</td>
<td>780</td>
</tr>
<tr>
<td>Transfers</td>
<td>10,172</td>
<td>6,227,130</td>
<td>9,766,514</td>
<td>(16,025,259)</td>
<td>20,943</td>
</tr>
<tr>
<td>Disposals</td>
<td>72,512</td>
<td>(1,468,000)</td>
<td>(356,549)</td>
<td>(23,431)</td>
<td>(50,423)</td>
</tr>
<tr>
<td><strong>As at 31 December 2018</strong></td>
<td>8,340,021</td>
<td>57,947,352</td>
<td>42,134,302</td>
<td>18,776,155</td>
<td>238,971</td>
</tr>
</tbody>
</table>

Accumulated depreciation (Note 2.6)

<table>
<thead>
<tr>
<th>Land</th>
<th>Machinery, vehicles and equipment</th>
<th>Buildings and constructions</th>
<th>Assets under construction</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>As at January 2019</td>
<td>-</td>
<td>(25,267,876)</td>
<td>(10,616,411)</td>
<td>-</td>
<td>(194,782)</td>
</tr>
<tr>
<td>Charge for the year</td>
<td>-</td>
<td>(2,991,498)</td>
<td>(1,903,907)</td>
<td>-</td>
<td>(61,149)</td>
</tr>
<tr>
<td>Disposals</td>
<td>1,364,751</td>
<td>82,885</td>
<td>50,069</td>
<td>1,497,705</td>
<td>-</td>
</tr>
<tr>
<td><strong>As at 31 December 2018</strong></td>
<td>-</td>
<td>(22,994,835)</td>
<td>(12,727,333)</td>
<td>-</td>
<td>(184,965)</td>
</tr>
</tbody>
</table>

Net book value as at 31 December 2018: 8,340,021

As at 31 December 2019 property, plant and equipment with a net book value of RR 23,778,342 (31 December 2018: RR 20,870,439) was pledged as collateral for the Group’s borrowings (Note 16).

As at 31 December 2019 the assets under construction related mainly to the pig farm construction in the Tambov region and Primorsky Krai. And as at 31 December 2018 the assets under construction related mainly to the pig farm construction in the Tambov region and Primorsky Krai and desugarisation production line in Belgorod region. During the reporting period, the Group capitalised interest expenses within assets under construction in the amount of RR 1,741,103 (2018: RR 1,934,454). The average capitalisation rate in 2019 was 8.83% (2018: 9.73%).

At 31 December 2019 and 2018, inventories intended for construction related mainly to the inventories which will be used for the pig farm construction in the Primorsky Krai.

Movements in the carrying amount of inventories intended for construction were as follows:

<table>
<thead>
<tr>
<th>Expense</th>
<th>Carry at 1 January 2018</th>
<th>Additions</th>
<th>Disposals</th>
<th>Carry at 31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>As at 1 January 2019</td>
<td>795,514</td>
<td>4,684,068</td>
<td>4,532,515</td>
<td>2,959,650</td>
</tr>
<tr>
<td><strong>As at 31 December 2018</strong></td>
<td>4,136,855</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

As at 1 January 2019 | 4,136,855 | 1,259,235 | | 3,157,569 |

13. Right-of-use assets and lease liabilities

The Group leases various lands, buildings, machinery, equipment and vehicles. Rental contracts are typically made for fixed periods of 12 months to 49 years, but may have extension options as described below.

Until 31 December 2018 leases of property, plant and equipment were classified as either finance leases or operating leases. Refer to Notes 12, 16, 33. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability from the date when the leased asset becomes available for use by the Group.

For the year ended 31 December 2019

The Group recognised right-of-use asset as follow:

<table>
<thead>
<tr>
<th>Land</th>
<th>Buildings</th>
<th>Equipment</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>As at January 2019</td>
<td>5,060,408</td>
<td>1,063,302</td>
<td>117,759</td>
<td>6,241,469</td>
</tr>
<tr>
<td>Additions</td>
<td>1,844,172</td>
<td>594,768</td>
<td>9,144</td>
<td>5,638</td>
</tr>
<tr>
<td>Disposals</td>
<td>(206,644)</td>
<td>(149,833)</td>
<td>-</td>
<td>(356,477)</td>
</tr>
<tr>
<td>Depreciation (Note 21.22.3)</td>
<td>(436,318)</td>
<td>(172,614)</td>
<td>(38,458)</td>
<td>(637)</td>
</tr>
</tbody>
</table>

**Carrying amount at 31 December 2019**

4,801,618 | 1,335,643 | 88,445 | 5,001 | 6,230,707 |

The Group recognised lease liabilities as follows for the year ended 31 December 2019:

- Short-term lease liabilities: 916,191 | 892,193 |
- Long-term lease liabilities: 3,360,961 | 3,359,056 |

Total lease liabilities: 4,297,152 | 4,291,284 |

Interest expense included in finance costs for 2019 was RR 590,777 (Note 25).

As at 31 December 2019, future cash outflows of RR 1,232,746 (undiscounted) to which the Group is potentially exposed to during the lease term have not been included in the lease liability because they include variable lease payments that are linked to cadastral value.

Variable lease payments that depend on cadastral value are recognised in profit or loss in the period in which the condition that triggers those payments occurs.

Expenses relating to short-term leases (included in cost of sales and general and administrative expenses):

<table>
<thead>
<tr>
<th>Expenses related to contracts in which payments do not depend on an index or a rate</th>
<th>Expenses related to short-term leases</th>
<th>Total outflow for leases in 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>RR 988,086</td>
<td>184,897</td>
<td>RR 1,172,983</td>
</tr>
</tbody>
</table>

The reconciliation of lease liabilities and the movements present in Note 16.

Extension and termination options are included in a number of property and equipment leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group’s operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019
(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)

14. Other intangible assets

<table>
<thead>
<tr>
<th></th>
<th>Acquired land lease rights</th>
<th>Trademarks</th>
<th>Software licenses</th>
<th>Internally developed software</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost (Note 2.9)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>As at 1 January 2018</td>
<td>1,755,603</td>
<td>328,340</td>
<td>743,260</td>
<td>60,153</td>
<td>234,405</td>
<td>3,121,761</td>
</tr>
<tr>
<td>Additions</td>
<td>132,118</td>
<td>21,951</td>
<td>247,795</td>
<td>2,162</td>
<td>468</td>
<td>404,494</td>
</tr>
<tr>
<td>Transfers</td>
<td>-</td>
<td>(71,641)</td>
<td>1,408</td>
<td>(10,684)</td>
<td>80,917</td>
<td>-</td>
</tr>
<tr>
<td>Losses through business combinations (Note 26)</td>
<td>(29,601)</td>
<td>4,008</td>
<td>(152,648)</td>
<td>(118,486)</td>
<td>(2,139)</td>
<td>(43,435)</td>
</tr>
<tr>
<td><strong>As at 31 December 2018</strong></td>
<td>1,808,120</td>
<td>130,010</td>
<td>873,974</td>
<td>49,492</td>
<td>273,355</td>
<td>3,184,951</td>
</tr>
<tr>
<td><strong>Accumulated amortisation (Note 2.9)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>As at 1 January 2018</td>
<td>(179,451)</td>
<td>(181,173)</td>
<td>(284,715)</td>
<td>(50,510)</td>
<td>(139,731)</td>
<td>(835,580)</td>
</tr>
<tr>
<td>Charge for the year</td>
<td>(113,361)</td>
<td>(33,134)</td>
<td>(228,657)</td>
<td>(6,623)</td>
<td>(40,949)</td>
<td>(422,724)</td>
</tr>
<tr>
<td>Disposals</td>
<td>5,449</td>
<td>162,928</td>
<td>89,641</td>
<td>18,857</td>
<td>2,264</td>
<td>276,139</td>
</tr>
<tr>
<td><strong>As at 31 December 2018</strong></td>
<td>(287,363)</td>
<td>(51,379)</td>
<td>(426,731)</td>
<td>(38,276)</td>
<td>(178,416)</td>
<td>(982,165)</td>
</tr>
<tr>
<td><strong>Net book value as at 31 December 2018</strong></td>
<td>1,570,757</td>
<td>78,631</td>
<td>447,243</td>
<td>11,216</td>
<td>94,939</td>
<td>2,202,786</td>
</tr>
</tbody>
</table>

Acquired land lease rights with net book value of RR 1,570,757 as at 1 January 2019 were reclassified to Right-of-use-assets as a result of IFRS16 adoption.

<table>
<thead>
<tr>
<th></th>
<th>Trademarks</th>
<th>Software licenses</th>
<th>Internally developed software</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost (Note 2.9)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>As at 1 January 2019</td>
<td>130,010</td>
<td>743,974</td>
<td>60,153</td>
<td></td>
<td>1,236,331</td>
</tr>
<tr>
<td>Additions</td>
<td>25,715</td>
<td>198,560</td>
<td>4,013</td>
<td>96,040</td>
<td>324,328</td>
</tr>
<tr>
<td>Transfers</td>
<td>1,951</td>
<td>1,544</td>
<td>-</td>
<td>(3,227)</td>
<td>-</td>
</tr>
<tr>
<td><strong>As at 31 December 2018</strong></td>
<td>156,971</td>
<td>902,077</td>
<td>49,492</td>
<td>365,644</td>
<td>1,474,404</td>
</tr>
<tr>
<td><strong>Accumulated amortisation (Note 2.9)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>As at 1 January 2019</td>
<td>(51,379)</td>
<td>(284,731)</td>
<td>(38,276)</td>
<td>(178,416)</td>
<td>(694,802)</td>
</tr>
<tr>
<td>Charge for the year</td>
<td>(24,045)</td>
<td>(299,058)</td>
<td>(4,161)</td>
<td>(17,750)</td>
<td>(345,014)</td>
</tr>
<tr>
<td>Disposals</td>
<td>437</td>
<td>171,117</td>
<td>2,440</td>
<td>53</td>
<td>174,047</td>
</tr>
<tr>
<td><strong>As at 31 December 2018</strong></td>
<td>(74,987)</td>
<td>(554,672)</td>
<td>(59,997)</td>
<td>(196,113)</td>
<td>(865,769)</td>
</tr>
<tr>
<td><strong>Net book value as at 31 December 2019</strong></td>
<td>91,984</td>
<td>347,405</td>
<td>9,715</td>
<td>169,531</td>
<td>608,655</td>
</tr>
</tbody>
</table>

FOR THE YEAR ENDED 31 DECEMBER 2019

15. Share capital, share premium and transactions with non-controlling interests

Share capital and share premium

At 31 December 2019 the issued and paid share capital consisted of 27,333,333 ordinary shares (31 December 2018: 27,333,333 ordinary shares) with par value of EUR 0.01 each.

At 31 December 2019 and 2018, the authorised share capital consisted of 60,000,000 ordinary shares with par value of EUR 0.01 each.

Treasury shares

At 31 December 2019 the Group held 2,186,313 of its own GDRs (31 December 2018: 2,186,313 own GDRs) that is equivalent of approximately 433,263 shares (31 December 2018: 433,263 shares). The GDRs are held as ‘treasury shares’. In 2019 and 2018 there were no acquisitions of treasury shares. In 2019 no GDRs were transferred to the employees under the share option incentive arrangements. In 2018 the Group transferred 6,005 of its own GDRs to the employees under the share option incentive scheme amounting to RR 1,371 (Note 28).

Dividends

In 2019 the Company distributed RR 3,449,838 of dividends for the second half of 2018 and RR 1,683,841 of interim dividends for the first half of 2019. The dividends for the second half of 2018 amounted to RR 128.25 per share and interim dividends for 2019 amounted to RR 62.6 per share.

In 2018 the Company distributed RR 2,224,024 of dividends for the second half of 2017 and RR 1,026,426 of interim dividends for the first half of 2018. The dividends for the second half of 2017 amounted to RR 82.68 per share and interim dividends for 2018 amounted to RR 38.15 per share.

Purchases of non-controlling interests

2019

On 26 February 2019 the Group acquired 0.78% additional shares in OJSC Pugachevsky elevator, thereby increasing its share in the share capital of OJSC Pugachevsky elevator to 84.95% (2018: 84.17%). The total excess of the Group’s share of identifiable net assets acquired over the consideration paid in the amount of RR 1,643 was recorded as a capital transaction in the consolidated statement of changes in equity.

2018

On 27 February 2018 the Group acquired 25.5% additional shares in OJSC Pugachevsky elevator, thereby increasing its shares in the share capital of OJSC Pugachevsky elevator to 84.17% (2017: 58.67%). The total excess of consideration paid over the Group’s share of identifiable net assets acquired in the amount of RR 30,249 was recorded as a capital transaction in the consolidated statement of changes in equity.
16. Borrowings

Short-term borrowings

<table>
<thead>
<tr>
<th>31 December 2019</th>
<th>Interest rate</th>
<th>Carrying amount</th>
<th>31 December 2018</th>
<th>Interest rate</th>
<th>Carrying amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank loans</td>
<td>0.7% - 7.4%</td>
<td>14,918,829</td>
<td>1.1% - 13%</td>
<td>24,604,398</td>
<td></td>
</tr>
<tr>
<td>Loan received</td>
<td>0.8%</td>
<td>3,472,349</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>from related</td>
<td>4.9%</td>
<td>710,460</td>
<td>6.0%</td>
<td>4,800</td>
<td></td>
</tr>
<tr>
<td>parties (Note 28)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance leases</td>
<td>-</td>
<td>-</td>
<td>18,877</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest accrued</td>
<td>-</td>
<td>8,624</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>on borrowings</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>from third</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>parties (Note 28)</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current portion</td>
<td>1% - 12.95%</td>
<td>12,724,437</td>
<td></td>
<td>7,885,516</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>31,834,699</td>
<td>32,513,595</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

All short-term borrowings are at fixed interest rate. The above borrowings are denominated in the following currencies:

<table>
<thead>
<tr>
<th>31 December 2019</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russian Roubles</td>
<td>23,854,865</td>
</tr>
<tr>
<td>Euro</td>
<td>7,076,818</td>
</tr>
<tr>
<td>Total</td>
<td>31,834,699</td>
</tr>
</tbody>
</table>

Long-term borrowings

<table>
<thead>
<tr>
<th>31 December 2019</th>
<th>Interest rate</th>
<th>Carrying amount</th>
<th>31 December 2018</th>
<th>Interest rate</th>
<th>Carrying amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank loans</td>
<td>1.0% - 12.95%</td>
<td>78,765,221</td>
<td>1.0% - 15.9%</td>
<td>70,373,958</td>
<td></td>
</tr>
<tr>
<td>Finance leases</td>
<td></td>
<td>99,089</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less current</td>
<td>1.0% - 12.95%</td>
<td>(12,724,437)</td>
<td>1.0% - 15.9%</td>
<td>(7,885,516)</td>
<td></td>
</tr>
<tr>
<td>portion of</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>long-term</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>borrowings</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>from:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank loans</td>
<td></td>
<td>66,040,784</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance leases</td>
<td></td>
<td>62,511,328</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less current</td>
<td></td>
<td>75,869</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>portion of</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>long-term</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>borrowings</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>from:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>total</td>
<td>66,040,784</td>
<td>62,511,328</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

In November 2018 the Group entered into a transaction with Rosselhozbank (hereinafter – “RSHB”) for the acquisition of debt of Group of companies Solnechnye producty and its subsidiaries and related companies. The gross value of total consideration for this acquisition amounted to RR 34,810,446 and the payment will be made by the Group in cash in accordance with the payment schedule deferred over 20 years.

The deferred liability due to RSHB is presented within bank loans. The fair value of this liability at inception date was RR 19,897,813 determined using the effective interest rate of 10.7% (applying level 2 valuation model). The liability is subsequently measured at amortized cost with an effective interest rate of 10.7%. The liability is collateralised by (1) the 20-year bonds of RSHB in the amount of RR 19,900,000 at the interest rate of 10.5% per annum purchased by the Group and; (2) a promissory note of RSHB purchased by the Group for nominal value of RR 100,000 with the payment period not later than 730 days.

The fair value of the loans acquired in this transaction determined applying the level 3 valuation model amounted to RR 23,410,231.

The assumptions used for the calculations to which the fair value is most sensitive were:
- WACC after-tax discount rate of 14.25%.
- Discount rate applicable to distressed assets of 21.3%.

If the revised estimated WACC after-tax discount rate applied to the discounted cash flows used in the valuation models of the loans acquired and discount rate applicable to distressed assets had been 2.0% higher than management’s estimates, with all other assumptions held constant, the Group would need to reduce the fair value of the loans acquired at initial recognition by RR 1,357,000.

As at 31 December 2018 the acquired loans amounted to RR 21,165,354 and recognised within Short-term investments (Note 4) in amount of RR 3,231,077 for current portion and within Long-term investments (Note 10) in amount of RR 17,934,277 for non-current portion. Subsequent to the initial recognition these loans receivable are measured at amortised cost. As at 31 December 2019 the acquired loans amounted to RR 22,075,850 (including RR 2,666,807 of interest receivable on these loans) and recognised within Short-term investments (Note 4) driven by the principal repayment of the loans as a result of the bankruptcy procedure expected to be finalised by the end of 2020.

The Group did not recognise any expected credit loss allowance for loans receivable because of the excess of collateral fair value over the gross carrying value of these loans as at 31 December 2019. The collateral fair value is represented by the fair value of the underlying rights of claim determined with reference to the assets pledged and other assets of the borrower / guarantors, taking into account bankruptcy procedure period and discount rate, applicable to distressed assets. The fair value of the production companies as part of the assets pledged was determined based on discounted cash flow calculations using the actual financial data and budgets of pledged Solnechnye producty production units covering a five-year period and the expected market prices for the key products for the same period according to the leading industry publications.

The assumptions used for the calculations to which the fair value is most sensitive were:
- WACC after-tax discount rate of 13.05%.
- Discount rate applicable to distressed assets of 20.3%.

If the revised estimated WACC after-tax discount rate applied to the discounted cash flows used in the valuation models of the loans acquired and discount rate applicable to distressed assets had been 1.5% higher than management’s estimates, with all other assumptions held constant, the Group would need to recognise the credit loss allowance for expected credit loss in amount of RR 2,144,519.

The difference between the fair value of the consideration and the fair value of loans acquired RR 3,412,418 representing day-one gain which was initially deferred for the period of 5 years being the average term of the acquired loans.

As at 31 December 2018 day-one gain amounted to RR 3,138,307 and is recognised within Other non-current liability in the amount of RR 2,465,813 for non-current portion and within Trade and other payables in the amount of RR 672,494 for current portion (Note 17). In 2019 the period for day-one gain amortization was revised and set in line with the expected timing of finalisation of bankruptcy procedures until the end.
of 2020. As at 31 December 2019 day-one gain amounted to RR 1,546,306 and is recognised within Trade and other payables (Note 17).

In November 2015 the Group entered into a transaction with VEB for the acquisition of debt (loans and bonds) and equity (19.97% shares in PJSC Group Razgulay) of PJSC Group Razgulay and its subsidiaries (hereafter: “Razgulay Group”). The total consideration for this acquisition amounted to RR 33,914,546 and was paid by the Group in cash.

For the purpose of financing of this transaction, the Group raised a thirteen-year loan from VEB and was paid by the Group in cash.

For the purpose of financing of this transaction, the Group raised a thirteen-year loan from VEB in the amount of RR 33,914,546 at 1% per annum. The fair value of this loan at inception date was RR 13,900,000 determined using the effective interest rate of 13.23%. The loan is measured at amortized cost with an effective interest rate of 13.23%. The loan is secured by a thirteen-year deposit placed by the Group with VEB in the amount of RR 13,900,000 (Note 10) at the interest rate of 12.84% per annum.

Maturity of long-term borrowings

<table>
<thead>
<tr>
<th>31 December 2019</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed interest rate borrowings:</td>
<td></td>
</tr>
<tr>
<td>2 years</td>
<td>15,023,426</td>
</tr>
<tr>
<td>3.5 years</td>
<td>26,841,580</td>
</tr>
<tr>
<td>More than 5 years</td>
<td>24,175,280</td>
</tr>
<tr>
<td>Total</td>
<td>66,040,284</td>
</tr>
</tbody>
</table>

For details of property, plant and equipment and biological assets pledged as collateral for the above borrowings see Note 9 and Note 12. For details of bank deposits pledged as collateral for the above borrowings refer to Notes 4 and 12.

Shares of several companies of the Group are pledged as collateral for the bank borrowings, as follows:

<table>
<thead>
<tr>
<th>Pledged shares, %</th>
<th>31 December 2019</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>LLC Tambovsky Bacon</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>LLC Rusagro-Primorie</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>LLC Rusagro-Bolgov (former OJSC Valukisakhar)</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>LLC Rusagro-Tambov</td>
<td>51.0</td>
<td>51.0</td>
</tr>
</tbody>
</table>

Reconciliation of liabilities arising from financing activities

The table below sets out an analysis of liabilities from financing activities and the movements in the Group’s liabilities from financing activities for each of the periods presented. The items of these liabilities are those that are reported as financing in the statement of cash flows:

<table>
<thead>
<tr>
<th>Year ended 31 December 2019</th>
<th>According to IFRS</th>
<th>Reclassifications</th>
<th>Management accounts</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from investing activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases of property, plant and equipment</td>
<td>(15,056,765)</td>
<td>-</td>
<td>(15,056,765)</td>
</tr>
<tr>
<td>Purchases of inventories intended for construction</td>
<td>(1,741,945)</td>
<td>-</td>
<td>(1,741,945)</td>
</tr>
<tr>
<td>Proceeds from cash withdrawals from deposits</td>
<td>4,622,323</td>
<td>-</td>
<td>4,622,323</td>
</tr>
<tr>
<td>Deposits placed with banks</td>
<td>2,012,991</td>
<td>-</td>
<td>2,012,991</td>
</tr>
<tr>
<td>Purchase of promissory note</td>
<td>100,000</td>
<td>-</td>
<td>100,000</td>
</tr>
<tr>
<td>Proceeds from sales of bonds with maturity over three months</td>
<td>2,314,831</td>
<td>-</td>
<td>(2,314,831)</td>
</tr>
<tr>
<td>Purchases of assets held for sale</td>
<td>(8,500,000)</td>
<td>-</td>
<td>(8,500,000)</td>
</tr>
<tr>
<td>Repayment of borrowings</td>
<td>(472,899)</td>
<td>-</td>
<td>(472,899)</td>
</tr>
<tr>
<td>Interest received</td>
<td>1,864,081</td>
<td>-</td>
<td>1,864,081</td>
</tr>
<tr>
<td>Interest received*</td>
<td>4,620,116</td>
<td>-</td>
<td>4,620,116</td>
</tr>
<tr>
<td>Proceeds from sale of subsidiaries, net of cash disposed</td>
<td>478,710</td>
<td>-</td>
<td>478,710</td>
</tr>
<tr>
<td>Proceeds from sale of assets held for sale</td>
<td>408,839</td>
<td>-</td>
<td>408,839</td>
</tr>
<tr>
<td>Interest on other cash flows*</td>
<td>100,000</td>
<td>-</td>
<td>100,000</td>
</tr>
<tr>
<td><strong>Net cash used in investing activities</strong></td>
<td>(12,987,064)</td>
<td>(2,012,991)</td>
<td>(14,300,055)</td>
</tr>
<tr>
<td><strong>Cash flows from financing activities</strong></td>
<td>(9,118,861)</td>
<td>-</td>
<td>(9,118,861)</td>
</tr>
<tr>
<td>Repayment of borrowings</td>
<td>(9,118,861)</td>
<td>-</td>
<td>(9,118,861)</td>
</tr>
<tr>
<td>Proceeds from cash withdrawals from deposits*</td>
<td>4,622,323</td>
<td>-</td>
<td>4,622,323</td>
</tr>
<tr>
<td>Deposits placed with banks*</td>
<td>(2,012,991)</td>
<td>-</td>
<td>(2,012,991)</td>
</tr>
<tr>
<td>Interest on loans issued</td>
<td>100,000</td>
<td>-</td>
<td>100,000</td>
</tr>
<tr>
<td>Proceeds from sales of bonds with maturity over three months</td>
<td>-</td>
<td>2,314,831</td>
<td>2,314,831</td>
</tr>
<tr>
<td>Interest on loans issued*</td>
<td>-</td>
<td>(372,899)</td>
<td>(372,899)</td>
</tr>
<tr>
<td><strong>Net cash used in financing activities</strong></td>
<td>(11,336,441)</td>
<td>(2,012,991)</td>
<td>(13,349,432)</td>
</tr>
<tr>
<td><strong>Net cash used in investing and financing activities</strong></td>
<td>(24,323,505)</td>
<td>(2,012,991)</td>
<td>(26,336,506)</td>
</tr>
</tbody>
</table>

Loss on disposal of property, plant and equipment

<table>
<thead>
<tr>
<th>Year ended 31 December 2019</th>
<th>Net cash used in investing activities</th>
<th>Management accounts</th>
</tr>
</thead>
<tbody>
<tr>
<td>(12,987,064)</td>
<td>(2,012,991)</td>
<td>(14,300,055)</td>
</tr>
<tr>
<td>(11,336,441)</td>
<td>(2,012,991)</td>
<td>(13,349,432)</td>
</tr>
<tr>
<td>(24,323,505)</td>
<td>(2,012,991)</td>
<td>(26,336,506)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year ended 31 December 2019</th>
<th>According to IFRS</th>
<th>Reclassifications</th>
<th>Management accounts</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Reclassifications</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from disposal of property, plant and equipment</td>
<td>15,056,765</td>
<td>-</td>
<td>15,056,765</td>
</tr>
<tr>
<td>Purchases of property, plant and equipment</td>
<td>(15,056,765)</td>
<td>-</td>
<td>(15,056,765)</td>
</tr>
<tr>
<td><strong>Net cash used in investing activities</strong></td>
<td>(12,987,064)</td>
<td>(2,012,991)</td>
<td>(14,300,055)</td>
</tr>
<tr>
<td><strong>Reclassifications of payments from leases</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from disposal of property, plant and equipment</td>
<td>15,056,765</td>
<td>-</td>
<td>15,056,765</td>
</tr>
<tr>
<td>Repayment of borrowings</td>
<td>(11,336,441)</td>
<td>-</td>
<td>(11,336,441)</td>
</tr>
<tr>
<td><strong>Net cash used in financing activities</strong></td>
<td>(2,012,991)</td>
<td>(2,012,991)</td>
<td>(2,012,991)</td>
</tr>
<tr>
<td><strong>Net cash used in investing and financing activities</strong></td>
<td>(24,323,505)</td>
<td>(2,012,991)</td>
<td>(26,336,506)</td>
</tr>
</tbody>
</table>
As part of liquidity risk management, the Group Treasury analyses its net debt position. The Group management determines the Net Debt of the Group as outstanding long-term borrowings and short-term borrowings less cash and cash equivalents, all bank deposits, bonds held for trading and banks' promissory notes. The Group management compares net debt figure with Adjusted EBITDA (Note 30) and considers the normal level of Net Debt/Adjusted EBITDA ratio to be not more than 3.

As at 31 December 2019 and 2018 the net debt of the Group was as follows:

<table>
<thead>
<tr>
<th>31 December 2019</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Long-term borrowings</strong></td>
<td><strong>66,940,784</strong></td>
</tr>
<tr>
<td><strong>Short-term borrowings</strong></td>
<td><strong>31,534,969</strong></td>
</tr>
<tr>
<td><strong>Cash and cash equivalents (Note 3)</strong></td>
<td><strong>(2,170,779)</strong></td>
</tr>
<tr>
<td><strong>Long-term promissory notes (Note 10)</strong></td>
<td><strong>(100,000)</strong></td>
</tr>
<tr>
<td><strong>Bank deposits within short-term investments (Note 4)</strong></td>
<td><strong>(13,900,000)</strong></td>
</tr>
<tr>
<td><strong>Bank deposits within long-term investments (Note 10)</strong></td>
<td><strong>(2,623,323)</strong></td>
</tr>
<tr>
<td><strong>Long-term bonds held for trading (Note 10)</strong></td>
<td><strong>(20,065,222)</strong></td>
</tr>
<tr>
<td><strong>Short-term bonds held for trading (Note 4)</strong></td>
<td><strong>(100,000)</strong></td>
</tr>
<tr>
<td><strong>Net debt</strong></td>
<td><strong>67,735,482</strong></td>
</tr>
<tr>
<td><strong>including long-term Net debt</strong></td>
<td><strong>32,675,682</strong></td>
</tr>
<tr>
<td><strong>including short-term Net debt</strong></td>
<td><strong>35,061,211</strong></td>
</tr>
<tr>
<td><strong>Adjusted EBITDA</strong> (Note 30)</td>
<td><strong>20,044,547</strong></td>
</tr>
<tr>
<td><strong>Net debt/ Adjusted EBITDA</strong></td>
<td><strong>3.36</strong></td>
</tr>
</tbody>
</table>

*not an IFRS measure.
### Disaggregation of revenue for 2019 by category under revenue recognition guidance:

<table>
<thead>
<tr>
<th>Type of goods and services</th>
<th>Sugar</th>
<th>Meat</th>
<th>Agriculture</th>
<th>Oil and Fat</th>
<th>Other</th>
<th>Elimination</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales of goods</td>
<td>29,302,997</td>
<td>25,764,457</td>
<td>26,394,794</td>
<td>88,999,186</td>
<td>3,975,058</td>
<td>(10,712,586)</td>
<td>150,855,592</td>
</tr>
<tr>
<td>Services transferred over time</td>
<td>91,810</td>
<td>37,168</td>
<td>36,352</td>
<td>2,291,126</td>
<td>(327,415)</td>
<td>421,177</td>
<td>4,890,320</td>
</tr>
<tr>
<td>Goods transferred at a point of time</td>
<td>120,560</td>
<td>273,844</td>
<td>236,434</td>
<td>284,225</td>
<td>273,844</td>
<td>120,560</td>
<td>1,067,224</td>
</tr>
<tr>
<td>Total revenue from contracts with customers</td>
<td>21,146,715</td>
<td>23,833,337</td>
<td>25,864,638</td>
<td>2,273,667</td>
<td>6,764,263</td>
<td>(11,240,001)</td>
<td>104,067,031</td>
</tr>
</tbody>
</table>
| Disaggregation of revenue for 2018 by category under revenue recognition guidance:

<table>
<thead>
<tr>
<th>Type of goods and services</th>
<th>Sugar</th>
<th>Meat</th>
<th>Agriculture</th>
<th>Oil and Fat</th>
<th>Other</th>
<th>Elimination</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales of goods</td>
<td>28,490,460</td>
<td>23,405,678</td>
<td>23,405,678</td>
<td>88,920,920</td>
<td>2,703,679</td>
<td>(11,240,001)</td>
<td>150,855,592</td>
</tr>
<tr>
<td>Services transferred over time</td>
<td>91,810</td>
<td>37,168</td>
<td>36,352</td>
<td>2,291,126</td>
<td>(327,415)</td>
<td>421,177</td>
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<td>120,560</td>
<td>1,067,224</td>
</tr>
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<td>21,146,715</td>
<td>23,833,337</td>
<td>25,864,638</td>
<td>2,273,667</td>
<td>6,764,263</td>
<td>(11,240,001)</td>
<td>104,067,031</td>
</tr>
</tbody>
</table>

The transportation expenses related to Revenue from transportation services in amount of RR 2,885,365 were recognised within Cost of sales (2018: RR 1,429,567).
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ROS AGRO PLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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21. Cost of sales

<table>
<thead>
<tr>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equipment and consumables used</td>
<td>86,451,434</td>
</tr>
<tr>
<td>Purchase of goods for resale</td>
<td>12,888,265</td>
</tr>
<tr>
<td>Services</td>
<td>11,583,303</td>
</tr>
<tr>
<td>Depreciation</td>
<td>7,671,869</td>
</tr>
<tr>
<td>Payroll</td>
<td>8,254,778</td>
</tr>
<tr>
<td>Other</td>
<td>2,278,815</td>
</tr>
<tr>
<td>Purchase of biological assets</td>
<td>1,226,371</td>
</tr>
<tr>
<td>Depreciation of right-of-use assets</td>
<td>906,137</td>
</tr>
<tr>
<td>Provision (reversal of provision) for net realisable value</td>
<td>(22,452)</td>
</tr>
<tr>
<td>Change in work in progress, finished goods and goods for resale, biological assets</td>
<td>(1,847,557)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>110,470,963</strong></td>
</tr>
</tbody>
</table>

*Changes in inventories and biological assets line above includes changes in balances of goods produced and goods purchased for resale, changes in work in progress and changes in biological assets excluding the effect of revaluation adjustments. This line also includes change in depreciation as included in work in progress, finished goods and biological assets in the amount of RR (538,543) (2018: RR (1,065,488)).*

Payroll costs include salaries of RR 6,332,017 (2018: RR 5,122,021) and statutory pension contributions of RR 338,617 (2018: RR 206,291).

The average number of employees employed by the Group during the year ended 31 December 2019 was 18,881 (15,123 for the year ended 31 December 2018).

22. Distribution and selling expenses

<table>
<thead>
<tr>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transportation and loading services</td>
<td>4,361,561</td>
</tr>
<tr>
<td>Payroll</td>
<td>1,624,473</td>
</tr>
<tr>
<td>Advertising</td>
<td>1,302,768</td>
</tr>
<tr>
<td>Other services</td>
<td>1,293,725</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>204,660</td>
</tr>
<tr>
<td>Materials</td>
<td>130,488</td>
</tr>
<tr>
<td>Fuel and energy</td>
<td>117,575</td>
</tr>
<tr>
<td>Depreciation of right-of-use assets</td>
<td>11,330</td>
</tr>
<tr>
<td>(Reversal of provision) for impairment of receivables</td>
<td>(7,723)</td>
</tr>
<tr>
<td>Other</td>
<td>568,288</td>
</tr>
<tr>
<td>Change in selling and distribution expenses attributable to goods not sold</td>
<td>212,654</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>9,518,779</strong></td>
</tr>
</tbody>
</table>


23. General and administrative expenses

<table>
<thead>
<tr>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payroll</td>
<td>3,507,003</td>
</tr>
<tr>
<td>Depreciation</td>
<td>493,939</td>
</tr>
<tr>
<td>Services of professional organisations</td>
<td>491,927</td>
</tr>
<tr>
<td>Taxes, excluding income tax</td>
<td>471,869</td>
</tr>
<tr>
<td>Rent</td>
<td>270,415</td>
</tr>
<tr>
<td>Security</td>
<td>179,017</td>
</tr>
<tr>
<td>Depreciation of right-of-use assets</td>
<td>130,560</td>
</tr>
<tr>
<td>Bank services</td>
<td>100,437</td>
</tr>
<tr>
<td>Travelling expenses</td>
<td>91,068</td>
</tr>
<tr>
<td>Fuel and energy</td>
<td>87,041</td>
</tr>
<tr>
<td>Materials</td>
<td>77,105</td>
</tr>
<tr>
<td>Repair and maintenance</td>
<td>65,005</td>
</tr>
<tr>
<td>Insurance</td>
<td>53,420</td>
</tr>
<tr>
<td>Communication</td>
<td>48,886</td>
</tr>
<tr>
<td>Penalties and fines paid</td>
<td>15,257</td>
</tr>
<tr>
<td>Statutory audit fees</td>
<td>2,408</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td><strong>624,869</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>6,711,005</strong></td>
</tr>
</tbody>
</table>

Payroll costs above include salaries of RR 2,382,792 (2018: RR 1,922,023) and statutory pension contributions of RR 674,211 (2018: RR 445,856).

The total fees charged by the Company’s statutory auditor for the statutory audit of the annual financial statements of the Company for the year ended 31 December 2019 amounted to RR 2,408 (2018: RR 2,379).

24. Other operating income (expenses), net

<table>
<thead>
<tr>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Realised deferred day-one gain (Note 16)</td>
<td>1,592,001</td>
</tr>
<tr>
<td>Amortization of deferred income to match related depreciation (Note 19)</td>
<td>614,609</td>
</tr>
<tr>
<td>Reimbursement of operating expenses (government grants)</td>
<td>406,268</td>
</tr>
<tr>
<td>Loss on sale of non-current assets classified as held for sale, net (Note 11)</td>
<td>412,111</td>
</tr>
<tr>
<td>(Gain) on sale of subsidiaries, net</td>
<td>348,860</td>
</tr>
<tr>
<td>Lost harvest write-off (Note 9)</td>
<td>122,468</td>
</tr>
<tr>
<td>Charitable donations and social costs</td>
<td>122,044</td>
</tr>
<tr>
<td>Loss on disposal of property, plant and equipment</td>
<td>119,691</td>
</tr>
<tr>
<td>Operating foreign exchange gains (losses), net</td>
<td>32,849</td>
</tr>
<tr>
<td>Loss on other investments</td>
<td>15,639</td>
</tr>
<tr>
<td>Share-based remuneration</td>
<td>32,178</td>
</tr>
<tr>
<td>Settlement of loans and accounts receivable previously written-off</td>
<td>147</td>
</tr>
<tr>
<td>Gain from revaluation of collateral (Note 11)</td>
<td>316,023</td>
</tr>
<tr>
<td>Loss on sale of other assets, net</td>
<td>(97,070)</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td><strong>1,926,686</strong></td>
</tr>
</tbody>
</table>

Gain on sale of subsidiaries in 2019 relates to sale of LLC Kolyshleyskiy Elevator for a consideration of RR 478,710.

In net loss on sale of other assets represents the difference between the gain of RR 1,272,568 from sale of AO Graivoronovo in December 2018, which acted as guarantor for the loans acquired from RSHB (Note 16) and the reduction in the value of the loans acquired from RSHB for RR 1,375,565 as a result of termination of the surety contracts. The gain from sale was calculated as the difference between the fair value of consideration received from sale (RR 1,325,100) and the purchase consideration paid by the Group (RR 52,532). No material transactions took place during the period of ownership of AO Graivoronovo in December 2018.
25. Interest expense and other financial income/(expenses), net

Interest expense comprised of the following:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest expense</td>
<td>6,829,598</td>
<td>4,000,443</td>
</tr>
<tr>
<td>Reimbursement of interest expense (government grants)</td>
<td>(1,346,358)</td>
<td>(1,116,025)</td>
</tr>
<tr>
<td>Interest expense, net</td>
<td>5,483,240</td>
<td>2,884,418</td>
</tr>
</tbody>
</table>

Other financial income/(expenses), net comprised of the following items:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial foreign exchange differences gain/(loss), net</td>
<td>210,577</td>
<td>(15,811)</td>
</tr>
<tr>
<td>Interest expense on leases</td>
<td>(590,777)</td>
<td>(151,031)</td>
</tr>
<tr>
<td>Other financial income/(expenses), net</td>
<td>(330,899)</td>
<td>(166,942)</td>
</tr>
</tbody>
</table>

26. Goodwill

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carrying amount at 1 January</td>
<td>2,364,942</td>
<td>1,826,258</td>
</tr>
<tr>
<td>Acquisitions of subsidiaries</td>
<td>538,684</td>
<td>538,684</td>
</tr>
<tr>
<td>Carrying amount at 31 December</td>
<td>2,364,942</td>
<td>2,364,942</td>
</tr>
</tbody>
</table>

The carrying amount of goodwill is allocated to the following CGUs:

<table>
<thead>
<tr>
<th>CGU</th>
<th>31 December 2019</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meat CGU</td>
<td>538,684</td>
<td>538,684</td>
</tr>
<tr>
<td>Oil Samara CGU</td>
<td>899,401</td>
<td>899,401</td>
</tr>
<tr>
<td>Agriculture Center CGU</td>
<td>199,276</td>
<td>199,276</td>
</tr>
<tr>
<td>Sugar CGU</td>
<td>502,083</td>
<td>502,083</td>
</tr>
<tr>
<td>Agriculture Primorie CGU</td>
<td>225,498</td>
<td>225,498</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,364,942</strong></td>
<td><strong>2,364,942</strong></td>
</tr>
</tbody>
</table>

2018

In August 2018 the Group acquired through one deal 100.00% share capital of trading company LLC Torgovy Agro and holding company LLC Kapital-Invest both located in Belgorod region.

At the time of the purchase transaction, LLC Kapital-Invest controlled 100.00% ownership interest in CJSC KapitalAgro, located in Belgorod region. The total consideration transferred under the deal amounted to RR 557,000. The goodwill arising on acquisition was allocated to Meat CGU. The close location of acquired companies to the other Meat companies of the Group will enable the greater efficiencies and competitive advantages, allow to develop synergies and achieve cost savings on the combination of the businesses.

The following table summarises the consideration paid, the fair value of assets acquired, liabilities assumed and non-controlling interest at the acquisition date:

<table>
<thead>
<tr>
<th></th>
<th>LLC Torgovy Agro</th>
<th>LLC Kapital-Invest</th>
<th>CJSC KapitalAgro</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goodwill on acquisition</td>
<td>538,684</td>
<td>538,684</td>
<td>538,684</td>
<td>1,616,052</td>
</tr>
<tr>
<td><strong>Total purchase consideration</strong></td>
<td><strong>557,000</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents of subsidiary acquired</td>
<td>(22,550)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total identifiable net assets</strong></td>
<td><strong>1,132,487</strong></td>
<td><strong>(2,079,438)</strong></td>
<td><strong>(3,211,925)</strong></td>
<td><strong>18,516</strong></td>
</tr>
</tbody>
</table>

The fair values of identifiable assets and liabilities of the above mentioned acquisitions were determined using discounted cash flow models. The valuation of property, plant and equipment and the rights under land rent agreements was performed by an independent professional appraiser.

On 19 September 2018 the Group acquired 100% of ownership interest in the share capital of LLC Voozrozhdenie, a construction company located in the Tambov region. The total cash consideration amounted to RR 217,850. This entity was acquired with the purpose of obtaining control over the agricultural land, owned by the acquired entity through ownership rights and rent agreements. There were no production processes on the acquired entity at the moment of acquisition. All other assets except of the land were immaterial. This deal was accounted for as assets acquisition.

Goodwill Impairment Test

The carrying amount of goodwill as at 31 December 2019 and 2018 was tested for impairment. The recoverable amount of the Group’s cash-generating units has been determined based on a value-in-use calculation using cash flow projections based on financial budgets approved by the Group management covering a five-year period and the expected market prices for the Group’s key products for the same period according to leading industry publications. Cash flows beyond the five-year period are projected with a long-term growth rate of 3.5% per annum (31 December 2018: 3.5% per annum).
26. Goodwill (continued)

The assumptions used for value-in-use calculations to which the recoverable amount is most sensitive were:

<table>
<thead>
<tr>
<th>CGU</th>
<th>2019</th>
<th>2018</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil Samara CGU</td>
<td>10.0%-12.6%</td>
<td>8.0%-12.5%</td>
<td>11.40%</td>
<td>13.4%</td>
</tr>
<tr>
<td>Agriculture Center CGU</td>
<td>28.7%-34.6%</td>
<td>24.0%-27.0%</td>
<td>9.90%</td>
<td>11.2%</td>
</tr>
<tr>
<td>Sugar CGU</td>
<td>16.3%-22.6%</td>
<td>16.9%-20.6%</td>
<td>11.50%</td>
<td>13.2%</td>
</tr>
<tr>
<td>Agriculture Primorod CGU</td>
<td>36.3%-35.2%</td>
<td>31.0%-37.0%</td>
<td>9.66%</td>
<td>11.2%</td>
</tr>
<tr>
<td>Mezhdinogorsk CGU</td>
<td>23.2%-30.7%</td>
<td>14.4%-18.6%**</td>
<td>9.75%</td>
<td>12.5%</td>
</tr>
</tbody>
</table>

* EBITDA margin is calculated as the sum of operating cash flows before income tax and changes in working capital divided by the amount of cash flow received from trade customers.

27. Income tax

As a result of the testing, no impairment losses were recognised for the goodwill allocated to each CGU.

The Group companies domiciled in Russia were subject to an income tax rate of 20% (2018: 20%) of taxable profits, except for profit on sales of agricultural produce taxable at 0% (2018: 0%) and profit obtained in Samara and Sverdlovsk region subject to a reduced rate of 16.5% in 2018 and 2019.

Group entities operating in other tax jurisdictions were taxed at 0% and 12.5% (2018: 0% and 12.5%).

Theoretical tax charge calculated at the applicable tax rate of 20%, 16.5% and 12.5% (2018: 20%, 16.5% and 12.5%)

2019: 1,079,825
2018: 488,757

Deferred tax charge/cr (credit) on dividends to be distributed
2019: 119,034
2018: 119,034

Adjustments of income tax in respect of prior years and tax holidays
2019: 12,911
2018: 23,055

Deferred tax charge (credit) to other comprehensive income
2019: 735,794
2018: 703,830

Differences between IFRS as adopted by the EU and local statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and their tax bases. Deferred taxes are attributable to the following:

<table>
<thead>
<tr>
<th>1 January 2019</th>
<th>Deferred tax assets/liabilities</th>
<th>Deferred tax (charged) to other comprehensive income</th>
<th>Deferred tax credited/charged to profit or loss</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>acquisition/disposal</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(taxable) temporary differences</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>(1,023,608)</td>
<td>9,592</td>
<td>-</td>
<td>(174,888)</td>
</tr>
<tr>
<td>Impairment of receivables</td>
<td>(204,525)</td>
<td>-</td>
<td>-</td>
<td>(260,674)</td>
</tr>
<tr>
<td>Payables</td>
<td>(438,347)</td>
<td>-</td>
<td>-</td>
<td>(258,213)</td>
</tr>
<tr>
<td>Financial assets</td>
<td>955,710</td>
<td>-</td>
<td>-</td>
<td>(385,106)</td>
</tr>
<tr>
<td>Inventory and biological assets</td>
<td>1,133,151</td>
<td>-</td>
<td>-</td>
<td>(864,902)</td>
</tr>
<tr>
<td>Borrowings</td>
<td>(3,221,993)</td>
<td>-</td>
<td>-</td>
<td>355,467</td>
</tr>
<tr>
<td>Loss carried forward</td>
<td>4,541,472</td>
<td>(30)</td>
<td>-</td>
<td>478,606</td>
</tr>
<tr>
<td>Lease liability</td>
<td>235,113</td>
<td>-</td>
<td>-</td>
<td>83,204</td>
</tr>
<tr>
<td>Right-of-use assets</td>
<td>(235,113)</td>
<td>-</td>
<td>-</td>
<td>(53,327)</td>
</tr>
<tr>
<td>Withholding income tax on dividends to be distributed</td>
<td>(119,034)</td>
<td>-</td>
<td>-</td>
<td>119,034</td>
</tr>
<tr>
<td>Other</td>
<td>244,716</td>
<td>(560)</td>
<td>-</td>
<td>265,435</td>
</tr>
</tbody>
</table>

Net deferred tax liability / asset: 1,907,542, 9,002 | - | (158,538) | 1,358,006 |

Recognised deferred tax asset: 1,866,593
Recognised deferred tax liability: (359,051)
In the context of the Group’s current structure tax losses and current tax assets of different companies may be offset only when they relate to the same taxable entity.

Deferred tax liabilities:

- DefERRed tax liability to be settled after more than 12 months
- (266,949) (340,017)
- (226,328) (119,534)
- (484,977) (359,951)

Total net deferred tax asset

1,358,006 1,507,542

The Group has not recognised a deferred tax liability of RR 4,588,185 (2018: RR 4,307,067) in respect of temporary differences associated with undistributed earnings of subsidiaries as the Group is able to control the timing of reversal of those temporary differences and it is probable that they will not reverse in the foreseeable future.

Deferred tax assets:

- Deferred tax asset to be recovered after more than 12 months
- 1,526,366 746,857
- 324,617 1,119,736

Deferred tax assets

1,852,983 1,866,593

IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE

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FOR THE YEAR ENDED 31 DECEMBER 2019
(IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS NOTED OTHERWISE)

27. Income tax (continued)

In August 2013 the Board of Directors approved a new dividend policy with payout ratio of at least 25% of net income. As the dividends will be distributed from net income of the reporting periods, they will be subject to current withholding income tax at the applicable rate. Refer to Note 32 “Contingencies” for description of tax risks and uncertainties.

28. Related party transactions

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The Company is controlled by GRANADA CAPITAL CY LIMITED, incorporated in Cyprus, which owns 70.7% of the Company’s shares. The parent entity which prepares consolidated financial statements of the largest and smallest body of undertakings of which the Company forms part as a subsidiary undertaking, is GRANADA CAPITAL CY LIMITED, which is incorporated in Cyprus with registered office at 205 Archyepiskopou Makariou, Victory House, Flat/Office 211 A, CY-3030, Limassol, Cyprus.

As at 31 December 2019 and 2018, the ultimate controlling party of the Company is Mr. Vadim Moshkovich (the “Owner”), who ultimately controls 70.7% of the total issued shares.

Key management personnel

Share option incentive scheme

In 2014 the Group initiated a share option incentive scheme for its top-management. Under this scheme the employees will be granted GDRs of the Company provided they remain in their position up to a specific date in the future. The amount of GDRs granted will be dependent on the average market prices of GDRs for the period preceding this date.

In 2017 the Group initiated a new share option incentive scheme for its top-management. Under the scheme the employees will be granted GDRs of the Company provided they remain in their position up to a specific date in the future. The amount of GDRs granted will be dependent on the average market prices of GDRs for the period preceding this date. Expenses recognized under this scheme for the year ended 31 December 2019 amounted to RR 26,636 (2018: RR 18,391) and gain resulting from the reduction of number of employees for the year ended 31 December 2019 amounted to RR 39,524 (2018: RR 38,524) in “Other operating income (expenses)” line in the consolidated statement of profit or loss and other comprehensive income (Note 24).

In 2019 no GDRs (2018: 6,005 amounting to RR 1,371) of the Company were transferred to the employees under the share option incentive schemes.

As at 31 December 2019, the share-based payment reserve accumulated in equity as a result of the share-based payment transactions amounted to RR 1,313,691 (2018: RR 1,326,579). Other remuneration to key management personnel

Remuneration to 12 (2018: 12) representatives of key management personnel, included in payroll costs, comprised short-term remuneration such as salaries, discretionary bonuses and other short-term benefits totaling RR 730,539 including RR 62,392 payable to the State Pension Fund (2018: RR 724,181 and RR 64,846 respectively).

The Company Directors’ remuneration

Included in the share-based compensation and other remuneration to Company Directors disclosed above, are the Company Directors’ fees, salaries and other short-term benefits totaling RR 524,603 in respect of the year ended 31 December 2019 (2018: RR 470,460).

Dividends paid to the Company Directors

During the year ended 31 December 2019 the dividends paid to the Company Directors amounted to RR 379,612 (2018: RR 129,578).
28. Related party transactions (continued)

Loan agreements with the Key management personnel

Balances and transactions under loan agreements with Key management personnel consist of the following:

<table>
<thead>
<tr>
<th>Transactions</th>
<th>31 December 2019</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating foreign exchange differences gain/(loss), net</td>
<td>(590)</td>
<td>-</td>
</tr>
<tr>
<td>Balances</td>
<td>31 December 2019</td>
<td>31 December 2018</td>
</tr>
<tr>
<td>Other receivables from related parties, gross</td>
<td>45</td>
<td>3,165</td>
</tr>
<tr>
<td>Trade accounts payable to related parties</td>
<td>2,603</td>
<td>128,737</td>
</tr>
<tr>
<td>Charitable donations and social costs</td>
<td>18,400</td>
<td>-</td>
</tr>
<tr>
<td>Proceeds from loans</td>
<td>2,603</td>
<td>128,737</td>
</tr>
<tr>
<td>Short-term loans repaid</td>
<td>1,932,870</td>
<td>470</td>
</tr>
<tr>
<td>Interest expenses</td>
<td>44,376</td>
<td>-</td>
</tr>
<tr>
<td>Interest paid</td>
<td>38,938</td>
<td>57</td>
</tr>
<tr>
<td>31 December 2019</td>
<td>31 December 2018</td>
<td></td>
</tr>
<tr>
<td>Trade receivables from related parties, gross</td>
<td>24</td>
<td>24</td>
</tr>
<tr>
<td>Other receivables from related parties, gross</td>
<td>646</td>
<td>368</td>
</tr>
<tr>
<td>Prepayments to related parties, gross</td>
<td>68,325</td>
<td>66,351</td>
</tr>
<tr>
<td>Loan received from related parties</td>
<td>(3,472,349)</td>
<td>-</td>
</tr>
<tr>
<td>Lease liabilities</td>
<td>(901,621)</td>
<td>-</td>
</tr>
<tr>
<td>Advances received from related parties</td>
<td>(2)</td>
<td>(2)</td>
</tr>
</tbody>
</table>

Balances and transactions with Key management personnel are presented in the table below:

<table>
<thead>
<tr>
<th>Transactions</th>
<th>31 December 2019</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating foreign exchange differences gain/(loss), net</td>
<td>(590)</td>
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</tr>
<tr>
<td>Balances</td>
<td>31 December 2019</td>
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<tr>
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<tr>
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<td>44,376</td>
<td>-</td>
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<tr>
<td>31 December 2019</td>
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<td></td>
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<tr>
<td>Trade receivables from related parties, gross</td>
<td>24</td>
<td>24</td>
</tr>
<tr>
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<td>368</td>
</tr>
<tr>
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<td>68,325</td>
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</tr>
<tr>
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<td>(3,472,349)</td>
<td>-</td>
</tr>
<tr>
<td>Lease liabilities</td>
<td>(901,621)</td>
<td>-</td>
</tr>
<tr>
<td>Advances received from related parties</td>
<td>(2)</td>
<td>(2)</td>
</tr>
</tbody>
</table>

Loans received from related parties are nominated in euro, bear interest rate of 0.8% and are due for repayment within 12 months from the reporting date. Lease liabilities relate to the rent of Moscow office premises from a related party for an expected lease period of 20 years. Liability at 31 December 2019 is accounted for in accordance with IFRS 16.
30. Segment information

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available. The CODM is a person or a group of persons who allocates resources and assesses the performance of the Group. The functions of CODM are performed by the Board of Directors of ROS AGRO PLC.

Description of products and services from which each reportable segment derives its revenue

The Group is organised on the basis of four main business segments:

- Sugar – represents production and trading operation with white sugar;
- Meat – represents cultivation of pigs and selling of consumable livestock to third parties;
- Agriculture – represents cultivation of plant crops (sugar beet, grain crops and other plant crops) and dairy cattle livestock;
- Oil and Fat – represents vegetable oil extraction, production and sales of mayonnaise, consumer margarine, and bottled vegetable oil.

Certain of the Group’s businesses are not included within the reportable operating segments, as they are not included in the reports provided to the CODM. The results of these operations are included in “Other” caption. The Company, OJSC Rusagro Group and LLC Group of Companies Rusagro that represent the Group’s head office and investment holding functions and earn revenue considered incidental to the Group’s activities are included in “Other” caption.

Factors that management used to identify the reportable segments

The Group’s segments are strategic business units that focus on different customers. They are managed separately because of the differences in the production processes, the nature of products produced and required marketing strategies.

Segment financial information reviewed by the CODM includes:

- Quarterly reports containing information about income and expenses by business units (segments) based on IFRS numbers, that may be adjusted to present the segments results as if the segments operated as independent business units and not as the division within the Group;
- Quarterly reports with a breakdown of separate material lines of IFRS consolidated statement of financial positions and IFRS consolidated statement of cash flows by segment;
- In addition to the main financial indicators, operating data (such as yield, production volumes, cost per unit, staff costs) and revenue data (volumes per type of product, market share) are also reviewed by the CODM on a quarterly basis.

Measurement of operating segment profit or loss, assets and liabilities

The CODM assesses the performance of the operating segments based on the Adjusted EBITDA figure for the period. Adjusted EBITDA figure is not an IFRS measure. Adjusted EBITDA is reconciled to IFRS operating profit in this Note.

Adjusted EBITDA is defined as operating profit before taking into account:

- depreciation and amortisation;
- other operating income/expenses, net (other than reimbursement of operating costs (government grants));
- the difference between the gain on revaluation of biological assets and agriculture produce recognised in the year and the gain on initial recognition of agricultural produce attributable to realised agricultural produce for the year and revaluation of biological assets attributable to realised biological assets and included in cost of sales;

- share-based remuneration;
- provision/(reversal of provision) for net realisable value of agricultural products in stocks.

Transactions between operating segments are accounted for based on financial information of individual segments that represent separate legal entities.

Analysis of revenues by products and services

Each business segment except for the “Agriculture” and “Other” segments is engaged in the production and sales of similar or related products (see above in this note). The “Agriculture” segment in addition to its main activity of growing and harvesting agricultural crops, is engaged in the cultivation of dairy cattle livestock. Related revenue from sales of milk and other livestock products was RR 192,556 (2018: RR 170,001). The “Other” segment is engaged in the production of milk products, including dry milk textures and cheese products. Related revenue from milk products was RR 3,869,750 (2018: RR 854,633).

For the amount of revenue from services, which comprise mainly processing of sugar beet for third party agricultural enterprises, see Note 20.

Geographical areas of operations

All the Group’s assets are located in the Russian Federation. Distribution of the Group’s sales between countries on the basis of the customers’ country of domicile was as follows:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russian Federation</td>
<td>104,067,031</td>
<td>67,192,299</td>
</tr>
<tr>
<td>Foreign countries</td>
<td>34,105,383</td>
<td>15,785,412</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>138,172,414</strong></td>
<td><strong>82,977,711</strong></td>
</tr>
</tbody>
</table>

Major customers

The Group has no customer or group of customers under common control who would account for more than 10% of the Group’s consolidated revenue.

Information about reportable segment adjusted EBITDA, assets and liabilities

Segment information for the reportable segments’ assets and liabilities as at 31 December 2019 and 2018 is set out below:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>50,574,705</td>
<td>49,218,251</td>
</tr>
<tr>
<td>Liabilities</td>
<td>34,304,378</td>
<td>32,296,065</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>84,880,083</strong></td>
<td><strong>81,514,316</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russia</td>
<td>44,065,471</td>
<td>42,843,461</td>
</tr>
<tr>
<td>Foreign countries</td>
<td>40,814,612</td>
<td>38,670,855</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>84,880,083</strong></td>
<td><strong>81,514,316</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjustments to non-current assets</td>
<td>3,926,040</td>
<td>2,651,012</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3,926,040</strong></td>
<td><strong>2,651,012</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>30,717,341</td>
<td>29,294,782</td>
</tr>
<tr>
<td>Liabilities</td>
<td>19,670,526</td>
<td>18,247,304</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>50,387,867</strong></td>
<td><strong>47,542,086</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjustments to non-current assets</td>
<td>3,780,454</td>
<td>2,403,801</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3,780,454</strong></td>
<td><strong>2,403,801</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
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<td>Assets</td>
<td>30,717,341</td>
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<tr>
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<td>19,670,526</td>
<td>18,247,304</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>50,387,867</strong></td>
<td><strong>47,542,086</strong></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjustments to non-current assets</td>
<td>3,780,454</td>
<td>2,403,801</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3,780,454</strong></td>
<td><strong>2,403,801</strong></td>
</tr>
</tbody>
</table>

*Additions to non-current assets exclude additions to financial instruments, assets held for sale and goodwill and restricted cash.
38 Segment information (continued)

Information about reportable segment adjusted EBITDA, assets and liabilities (continued)

Segment information for the reportable segments' adjusted EBITDA for the years ended 31 December 2019 and 2018 is set out below:

<table>
<thead>
<tr>
<th>Segment Information</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sugar</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wood</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Meat</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agriculture</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oil and Fat</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net gain/(loss) on revaluation of biological assets and amortisation</td>
<td>4,952,302</td>
<td>3,982,66</td>
</tr>
<tr>
<td>Operating profit (government grants) incl. Reimbursement of operating costs</td>
<td>4,931,158</td>
<td>3,982,66</td>
</tr>
<tr>
<td>Other operating income/(expenses), net incl. Depreciation and amortisation</td>
<td>8,890</td>
<td>8,890</td>
</tr>
<tr>
<td>Gross profit</td>
<td>5,897,332</td>
<td>5,870,285</td>
</tr>
<tr>
<td>Net gain/(loss) on revaluation of agricultural produce</td>
<td>-7,342</td>
<td>-7,342</td>
</tr>
<tr>
<td>Distribution and Selling, General and administrative expenses</td>
<td>-5,737,851</td>
<td>-5,701,57</td>
</tr>
<tr>
<td>Total</td>
<td>-2,850,788</td>
<td>-1,926,686</td>
</tr>
<tr>
<td>Adjustments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation included in Operating Profit</td>
<td>1,989,163</td>
<td>8,478,952</td>
</tr>
<tr>
<td>Other operating income/(expenses), net</td>
<td>(244,656)</td>
<td>(192,500)</td>
</tr>
<tr>
<td>Reimbursement of operating costs (government grants)</td>
<td>8,216</td>
<td>8,216</td>
</tr>
<tr>
<td>Adjusted EBITDA</td>
<td>5,701,57</td>
<td>5,701,57</td>
</tr>
</tbody>
</table>

*R Non-IFRS measure
31. Financial risk management

Financial risk factors

The Group’s activities expose it to a variety of financial risks: market risk (including commodity price risk, foreign exchange risk, cash flow interest rate risk and fair value interest rate risk), credit risk and liquidity risk. The Group’s overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group’s financial performance. The Group does not use derivative financial instruments to hedge its risk exposures except for raw sugar commodity price risk management as described below.

Operating risk management is carried out on the level of the finance function of the Group’s business and seeks to minimise potential adverse effects on the Group’s financial performance.

Credit risk

The credit risk represents the risk of losses for the Group owing to default of counterparties on obligations to transfer to the Group cash and cash equivalents and other financial assets.

Activities of the Group that give rise to credit risk include granting loans, making sales to customers on credit terms, placing deposits with banks and performing other transactions with counterparties giving rise to financial assets.

The Group’s maximum exposure to credit risk at the reporting date without taking account of any collateral held is as follows:

<table>
<thead>
<tr>
<th>Category</th>
<th>31 December 2019</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds held to collect (Note 10)</td>
<td>14,071,101</td>
<td>14,071,101</td>
</tr>
<tr>
<td>Bank deposits (Note 10)</td>
<td>8,500,000</td>
<td>8,500,000</td>
</tr>
<tr>
<td>Investments in third parties (Note 10)</td>
<td>2,016,415</td>
<td>18,090,981</td>
</tr>
<tr>
<td>Promissory note</td>
<td>100,000</td>
<td>100,000</td>
</tr>
<tr>
<td>Total long-term financial assets</td>
<td>42,936,323</td>
<td>54,494,252</td>
</tr>
</tbody>
</table>

Credit risk grading system

The Group applies IRB systems for measuring credit risk for the following financial assets: cash and cash equivalents, bank deposits, bonds held for trading.

<table>
<thead>
<tr>
<th>Master scale credit risk grade</th>
<th>Corresponding internal ratings</th>
<th>Corresponding ratings of external international rating agencies</th>
<th>Corresponding PD interval</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excellent</td>
<td>[1 – 6]</td>
<td>AAA to BB+</td>
<td>0.01% - 0.05%</td>
</tr>
<tr>
<td>Good</td>
<td>[7 – 14]</td>
<td>BB to B+</td>
<td>0.06% - 1%</td>
</tr>
<tr>
<td>Satisfactory</td>
<td>[15 – 21]</td>
<td>B, B-</td>
<td>1% - 5%</td>
</tr>
<tr>
<td>Special monitoring</td>
<td>[22 – 25]</td>
<td>CCC+ to CC-</td>
<td>6% - 99.9%</td>
</tr>
<tr>
<td>Default</td>
<td>[26 – 30]</td>
<td>C, D+ to D-</td>
<td>100%</td>
</tr>
</tbody>
</table>

Each master scale credit risk grade is assigned a specific degree of creditworthiness:

- Excellent – strong credit quality with low expected credit risk;
- Good – adequate credit quality with a moderate credit risk;
- Satisfactory – moderate credit quality with a satisfactory credit risk;
- Special monitoring – facilities that require closer monitoring and remedial management; and
- Default – facilities in which a default has occurred.

The IRB system is designed internally, and ratings are estimated by management. Various credit-risk estimation techniques are used by the Group depending on the class of the asset. There are three commonly used types of such systems:

- Model-based – In this system, credit risk ratings are assigned subjectively by experienced credit officers based on internally developed methodology and different qualitative and quantitative factors. This approach is based on expert methodology and judgements rather than on sophisticated statistical models.
- Expert judgement-based – This system, credit risk ratings are assigned subjectively by experienced credit officers based on internally developed methodology and different qualitative and quantitative factors. This approach is based on expert methodology and judgements rather than on sophisticated statistical models.
- Hybrid – This rating system is a combination of the two systems above. It is developed by using historical data combined with expert input.

The Group applies IRB systems for measuring credit risk for the following financial assets: cash and cash equivalents, bank deposits, bonds held for trading.

The table below discloses the credit quality of cash and cash equivalents balances and bank deposits based on credit risk grades at 31 December 2019:

<table>
<thead>
<tr>
<th>Category</th>
<th>Cash and cash equivalents</th>
<th>Bank deposits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total cash and cash equivalents, excluding cash on hand</td>
<td>21,703,328</td>
<td>14,071,101</td>
</tr>
<tr>
<td>Total</td>
<td>16,241,429</td>
<td>16,187,862</td>
</tr>
</tbody>
</table>

As at 31 December 2019 the Group has collateral against RR 50,751 of its trade receivables (31 December 2018: RR 1,105,478). The Group has geographical concentration of credit risk in the Russian market since the majority of the Group’s customers conduct their business in Russian Federation.

Credit risk grading system. For measuring credit risk and grading financial instruments by the amount of credit risk, the Group applies two approaches – an Internal Risk-Based (IRB) rating system or risk grades estimated by external international rating agencies (Standard & Poor’s – “S&P”, Fitch, Moody’s). Internal and external credit ratings are mapped on an internally defined master scale with a specified range of probabilities of default as disclosed in the table below:
31 Financial risk management (continued)

Credit risk (continued)

The table below discloses the credit quality of cash and cash equivalents balances and bank deposits based on credit risk grades at 31 December 2018.

<table>
<thead>
<tr>
<th>Cash and cash equivalents</th>
<th>Bank deposits</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Excellent</td>
<td>1,694,379</td>
<td>16,738,340</td>
</tr>
<tr>
<td>- Good</td>
<td>33,496</td>
<td>123,323</td>
</tr>
<tr>
<td>- Satisfactory</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>- Special monitoring</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total cash and cash equivalents, excluding cash on hand</td>
<td>1,727,875</td>
<td>16,861,663</td>
</tr>
</tbody>
</table>

The credit quality of cash and cash equivalents balances may be summarised as:

- Expected credit loss measurement. Expected credit loss is a probability-weighted estimate of the present value of future cash shortfalls. An expected credit loss measurement is unbiased and is determined by evaluating a range of possible outcomes. Expected credit loss measurement is based on four components used by the Group: Probability of Default, Exposure at Default, Loss Given Default and Discount Rate.

- Exposure at Default is an estimate of exposure at a future default date, taking into account expected changes in the exposure after the reporting period, including repayments of principal and interest, and expected drawdowns on committed facilities.

For purposes of measuring Probability of Default, the Group defines default as a situation when the borrower meets one or more of the following criteria:

- the borrower is more than 90 days past due on its contractual payments;
- international rating agencies have classified the borrower in the default rating class;
- the borrower is more than 90 days past due on its contractual payments;
- the borrower is more than 90 days past due on its contractual payments;
- the borrower is more than 90 days past due on its contractual payments;
- the borrower is more than 90 days past due on its contractual payments;
- the borrower is more than 90 days past due on its contractual payments.

Forward-looking information incorporated in the ECL models. The Group identified certain key economic variables that correlate with developments in credit risk and ECLs. As with any economic forecast, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty, and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Group's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.
31 Financial risk management (continued)

Financial assets are impaired when there is evidence that the Group will not receive the full amount due or receive the full amount later than contracted. Factors to consider include whether the receivable is past due, the age of the receivable and past experience with the counterparty.

The Group has no financial assets at 31 December 2019 and 2018 that would otherwise be impaired whose terms have been renegotiated.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, Group Treasury aims to maintain flexibility in funding by keeping committed credit lines available. The Group does not have formal policies and procedures in place for management of fair value interest rate risk. The Group Treasury analyses the net debt position as disclosed in Note 16.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date:

### Carrying value

<table>
<thead>
<tr>
<th>Carrying value</th>
<th>Total 2020</th>
<th>Total 2021</th>
<th>Total 2022-2024</th>
<th>Total 2024</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td>31 December 2019</td>
<td>31 December 2018</td>
<td>31 December 2019</td>
<td>31 December 2018</td>
</tr>
<tr>
<td>Borrowings and loans (Note 16) - principal amount</td>
<td>96,860,147</td>
<td>125,877,690</td>
<td>30,596,207</td>
<td>14,251,035</td>
</tr>
<tr>
<td>- interest</td>
<td>1,015,336</td>
<td>32,244,187</td>
<td>4,207,675</td>
<td>3,352,229</td>
</tr>
<tr>
<td>Lease liabilities (Note 13)</td>
<td>4,906,592</td>
<td>10,490,012</td>
<td>926,378</td>
<td>860,369</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>113,859,446</td>
<td>179,662,220</td>
<td>46,509,621</td>
<td>18,493,633</td>
</tr>
</tbody>
</table>

### Contractual undiscounted cash flows

<table>
<thead>
<tr>
<th>Contractual undiscounted cash flows</th>
<th>Total 2020</th>
<th>Total 2021</th>
<th>Total 2022-2024</th>
<th>Total 2024</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td>31 December 2019</td>
<td>31 December 2018</td>
<td>31 December 2019</td>
<td>31 December 2018</td>
</tr>
<tr>
<td>Borrowings and loans (Note 16) - principal amount</td>
<td>94,796,808</td>
<td>124,567,703</td>
<td>30,632,769</td>
<td>12,583,616</td>
</tr>
<tr>
<td>- interest</td>
<td>304,318</td>
<td>33,848,596</td>
<td>4,657,486</td>
<td>2,491,188</td>
</tr>
<tr>
<td>Financial liabilities within trade and other payables (Note 17)</td>
<td>9,013,580</td>
<td>9,013,580</td>
<td>9,013,580</td>
<td>9,013,580</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>102,914,706</td>
<td>165,789,399</td>
<td>42,203,835</td>
<td>15,074,884</td>
</tr>
</tbody>
</table>

The exchange rates used for calculating payments for bank borrowings denominated in currencies other than Russian Roubles:

<table>
<thead>
<tr>
<th>Exchange Rate</th>
<th>31 December 2019</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Dollar</td>
<td>61.9057</td>
<td>64.7096</td>
</tr>
<tr>
<td>Euro</td>
<td>69.3406</td>
<td>79.4605</td>
</tr>
</tbody>
</table>

In addition, the Group has commitments as disclosed in Note 33.
### 31 Financial risk management (continued)

#### Market risk (continued)

The Group is exposed to debt securities price risk arising on investments held by the Group and classified in the consolidated statement of financial position either at fair value through other comprehensive income (Note 10). The Group does not manage its price risk arising from investments in equity securities.

**Sales price risk**

Changes in white sugar prices from January until August are closely related to changes in world raw sugar prices that is implicitly managed through the raw sugar derivatives (see above). The storage facilities of own sugar plants permit to build up stocks of white sugar to defer sales to more favourable price periods.

The Group is exposed to financial risks arising from changes in milk, meat and crops prices (Note 9).

#### Fair value estimation

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments.

Management has used all available market information in estimating the fair value of financial instruments.

**Financial assets carried at amortised cost**

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty.

**Liabilities carried at amortised cost**

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity.
31 Financial risk management (continued)

Financial instruments by measurement categories and fair values as at 31 December 2018

<table>
<thead>
<tr>
<th>Financial assets</th>
<th>Amortised cost</th>
<th>Other at amortised cost</th>
<th>At fair value through other comprehensive income</th>
<th>At fair value through profit or loss</th>
<th>Total carrying amount</th>
<th>Fair value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>1,728,396</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,728,396</td>
<td>1,728,396</td>
</tr>
<tr>
<td>Short-term restricted cash</td>
<td>49</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>49</td>
<td>49</td>
</tr>
<tr>
<td>Bonds held for trading</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>191,349</td>
<td>191,349</td>
</tr>
<tr>
<td>Bank deposits (Note 4)</td>
<td>2,790,562</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2,790,562</td>
<td>2,790,562</td>
</tr>
<tr>
<td>Short-term loans issued</td>
<td>5,330,398</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>5,330,398</td>
<td>5,330,398</td>
</tr>
<tr>
<td>Interest receivable on bonds held to collect (Note 4)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>188,914</td>
<td>188,914</td>
</tr>
<tr>
<td>Interest receivable on bonds held for trading (Note 4)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>50,015</td>
<td>50,015</td>
</tr>
<tr>
<td>Financial assets within trade and other receivables (Note 10)</td>
<td>5,640,955</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>5,640,955</td>
<td>5,640,955</td>
</tr>
<tr>
<td><strong>Total short-term financial assets</strong></td>
<td>15,679,274</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>241,364</td>
<td>15,920,638</td>
</tr>
<tr>
<td>Bonds held for trading (Note 10)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2,316,415</td>
<td>2,316,415</td>
</tr>
<tr>
<td>Bonds held to collect (Note 10)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>19,900,000</td>
<td>19,900,000</td>
</tr>
<tr>
<td>Bank deposits (Note 10)</td>
<td>14,071,101</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>14,071,101</td>
<td>14,071,101</td>
</tr>
<tr>
<td>Promissory notes (Note 5)</td>
<td>100,000</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>100,000</td>
<td>100,000</td>
</tr>
<tr>
<td>Long-term loans issued (Note 10)</td>
<td>18,090,981</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>18,090,981</td>
<td>18,090,981</td>
</tr>
<tr>
<td>Other long-term investments (Note 10)</td>
<td>15,756</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>15,756</td>
<td>15,756</td>
</tr>
<tr>
<td><strong>Total long-term financial assets</strong></td>
<td>52,177,831</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>54,494,252</td>
<td>54,494,252</td>
</tr>
<tr>
<td><strong>Total financial assets</strong></td>
<td>67,857,111</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>70,414,680</td>
<td>70,414,680</td>
</tr>
</tbody>
</table>

31 Financial risk management (continued)

Investment at FV Through OCF

<table>
<thead>
<tr>
<th>Inputs used</th>
<th>Range of inputs (weighted average)</th>
<th>Reasonable change</th>
<th>Sensitivity of fair value measurement</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDA Margin</td>
<td>22 – 26%</td>
<td>± 1%</td>
<td>± 471,567</td>
</tr>
<tr>
<td>Terminal growth rate</td>
<td>2%</td>
<td>± 0.5%</td>
<td>± 199,583</td>
</tr>
<tr>
<td>WACC</td>
<td>13.1%</td>
<td>± 0.5%</td>
<td>± 306,451</td>
</tr>
</tbody>
</table>

Sensitivity of fair value to valuation inputs for financial assets and financial liabilities, if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would not be significant. For this purpose, significance was judged with respect to profit or loss, and total assets or total liabilities, or, when changes in fair value are recognised in other comprehensive income, total equity.

There were no changes in the valuation technique for level 3 recurring fair value measurements during the year ended 31 December 2019 (2018: none).

Capital management

The primary objective of the Group’s capital management is to maximize participants’ return while sustaining a reasonable level of financial risks. The Group does not have a quantified target level of participants’ return or capital ratios. To fulfill capital management objectives while providing for external financing of regular business operations and investment projects, the Group management compares expected return of these operations and projects with the costs of debt and maintains prudent financial risk management as described above.

The Group companies complied with all externally imposed capital requirements throughout 2019 and 2018.

32. Contingencies

Tax legislation

Russian tax and customs legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged tax authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when decisions about the review was made. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation is generally aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD), with certain specific features. Transfer pricing legislation provides for the possibility of additional tax assessment for controlled transactions (transactions between related parties and certain transactions between unrelated parties) if such transactions are not on an arm’s length basis. Management has implemented internal controls to be in compliance with current transfer pricing legislation.

Tax liabilities arising from controlled transactions are determined based on their actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such prices could be challenged. The impact of any such challenge cannot be reliably estimated, however, it may be significant to the financial position and/or the Group’s operations.
Starting from 2015 new rules were put in place establishing when foreign entities can be viewed as managed from Russia and consequently can be deemed Russian tax residents. Russian tax residency means that such legal entity’s worldwide income will be taxed in Russia.

The tax liabilities of the Group were determined on the assumption that the foreign companies of the Group were not subject to applicable Russian taxes, because they did not have a permanent establishment in Russia and were not Russian profit tax residents by way of application of the new tax residency rules. However, the Russian tax authorities may challenge this interpretation of relevant legislation in regard to the foreign companies of the Group. The impact of any such challenge cannot be reliably estimated currently; however, it may be significant to the financial position and/or the overall operations of the Group.

The Group’s Management believes that its interpretation of the relevant legislation is appropriate, and the Group’s tax and customs positions will be sustained. Accordingly, at 31 December 2019 no provision for potential tax liabilities had been recorded (2018: no provision). Management will vigorously defend the Group’s positions and interpretations that were applied in determining taxes recognised in these consolidated financial statements if these are challenged by the authorities.

Social obligations
Some production companies of the Group have collective agreements signed with the employees. Based on these contracts the companies make social payments to the employees. The amounts payable are determined in each case separately and depend primarily on performance of the company. These payments do not satisfy the liability recognition criteria listed in IAS 19, “Employee Benefits”. Therefore, no liability for social obligations was recognised in these consolidated financial statements.

Legal proceedings
From time to time and in the normal course of business, claims against the Group may be received. On the basis of its own estimates, management is of the opinion that no material losses will be incurred in respect of claims.

There are no current legal proceedings or other claims outstanding which could have a material effect on the results of operations and financial position of the Group.

Operating environment of the Group
The uncertainties related to the operating environment of the Group are described in Note 1.

33. Commitments

Contractual capital expenditure commitments
As at 31 December 2019 the Group had outstanding contractual commitments in respect of purchases or construction of property, plant and equipment in the amount of RR 7,475,004 (31 December 2018: RR 11,899,092).

Operating lease commitments
As at 31 December 2018, the Group had 970 land lease agreements of these in 558 land lease agreements fixed rent payments are defined and denominated in Russian Roubles. For these land lease agreements, the future minimum lease payments under non-cancellable operating leases are as follows as at 31 December 2018:

<table>
<thead>
<tr>
<th>Period</th>
<th>Payment (in thousands of Russian Roubles)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not later than 1 year</td>
<td>44,990</td>
</tr>
<tr>
<td>Later than 1 year and not later than 5 years</td>
<td>166,087</td>
</tr>
<tr>
<td>Later than 5 years</td>
<td>1,234,583</td>
</tr>
<tr>
<td>Total</td>
<td>1,444,270</td>
</tr>
</tbody>
</table>

In addition, in 412 land lease agreements the rent is established as a non-monetary measure based on a certain share of agricultural produce harvested or a fixed volume of harvested crops. For 2018 related rent expenses were RR 408,287.
CONTACT INFORMATION

Full corporate name
Public Company Limited by Shares ROS AGRO PLC

Abbreviated name
ROS AGRO PLC

Full corporate name in Russian
РОС АГРО ПЛС

Legal address
ROS AGRO PLC
25 Aphrodite Street, 3rd floor, Office 300, CY-1060 Nicosia, Cyprus

Rusagro Group of Companies LLC
Studenetskaya Naberezhnaya street 20V.,
office 303, Tambov,
Tambov Region, 392000 Russia

Contact for shareholders and investors
Svetlana Kuznetsova
Tel.: +7 495 363 16 61
E-mail: ir@rusagrogroup.ru

Independent auditors in Russian Federation
AO PricewaterhouseCoopers Audit
10, Butyrsky Val,
Moscow, Russia, 125047

Independent auditors in Cyprus
PricewaterhouseCoopers Limited,
City House, 6 Karaiskakis Street,
CY-3032 Limassol,
Cyprus

Depository
The Bank of New York Mellon
One Wall Street, New York, New York 10286,
United States of America

Company website
Russian: www.rusagrogroup.ru
English: www.rusagrogroup.ru/en